

FR 609  
Rev. 10/59

Minutes for April 26, 1960.

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

|                 |                    |
|-----------------|--------------------|
| Chm. Martin     | <u>mw</u>          |
| Gov. Szymczak   | <u>MS</u>          |
| Gov. Mills      | <u>[Signature]</u> |
| Gov. Robertson  | <u>RS</u>          |
| Gov. Balderston | <u>CCB</u>         |
| Gov. Shepardson | <u>[Signature]</u> |
| Gov. King       | <u>[Signature]</u> |

Minutes of the Board of Governors of the Federal Reserve System  
on Tuesday, April 26, 1960. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman  
Mr. Szymczak  
Mr. Mills  
Mr. Robertson  
Mr. Shepardson  
Mr. King

Mr. Sherman, Secretary  
Mr. Thomas, Adviser to the Board  
Mr. Young, Adviser to the Board  
Mr. Noyes, Director, Division of Research and  
Statistics  
Mr. Solomon, Director, Division of Examinations  
Mr. Hexter, Assistant General Counsel  
Mr. Conkling, Assistant Director, Division of  
Bank Operations  
Mr. Daniels, Assistant Director, Division of  
Bank Operations  
Mr. Benner, Assistant Director, Division of  
Examinations  
Mr. Landry, Assistant to the Secretary  
Miss Hart, Assistant Counsel

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on April 25, 1960, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

Item circulated to the Board. The following item, which had been circulated to the Board and a copy of which is attached to these minutes as Item No. 1, was approved unanimously:

Letter to the Federal Reserve Bank of Chicago authorizing waiver of a penalty incurred by the Warren Bank, Warren, Michigan, because of a deficiency in its required reserves.

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Examination report information regarding advisory directors.

There had been circulated under date of April 6, 1960, a memorandum from the Division of Examinations pertaining to the practice of appointing honorary and advisory directors by commercial banks. In a letter dated May 22, 1958, (S - 1656) the Board requested the Reserve Banks to include certain information (names, duties, fees, borrowings, etc.) regarding members of advisory boards in examination reports of banks having such boards. Subsequently, a study of incoming examination reports containing such information was made by the Division to determine the extent of the practice among State member banks.

At the March 1960 conference of representatives of Bank Examination Departments of the Reserve Banks, the desirability of continuing to include this information in reports of examination was discussed. The views expressed by the representatives indicated no serious supervisory problems from the practice of appointing advisory directors by commercial banks, and the consensus was that the inclusion of the information in future reports should be discontinued. The memorandum indicated that, on the basis of these views and the results of its own study, the Division of Examinations believed that the request in the Board's letter of May 22, 1958, could now be withdrawn and the practice left to the discretion of the Reserve Banks. Should the Board be of the same opinion, a proposed letter to the Reserve Banks to this effect was attached to the memorandum.

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Governor Mills inquired why the request for this information should be withdrawn, stating that he doubted that supplying this information was a difficult chore for State member banks.

Governor Robertson expressed a similar view, adding that although the problem may not seem to be important at present, if the information were not made available regularly to the Board it would not have an opportunity to ascertain whether the problem was large or small.

In further comment, Governor Mills noted that the Board had a responsibility under Regulation R, Relationships with Dealers in Securities under Section 32 of the Banking Act of 1933, and under the Clayton Act. He felt that service by persons from the investment industry on the boards of directors of banks by way of becoming advisory members might conflict with the purpose of the law and the regulation.

Mr. Solomon explained that the objections to supplying this information related not so much to the difficulty of getting the facts but to the time consumed in preparing the examination report. If the information was not needed, its elimination should reduce the delay between the time the examination was completed and the time the report form was filled out.

Mr. Eckert, Chief, Banking Section, Division of Research and Statistics, entered the room at this point.

Governor Robertson suggested that the present arrangement be continued through the current year, at which time the Examinations

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Division could study the results and report back to the Board for its determination of whether or not the reporting requirement should be discontinued.

Following further discussion, Governor Robertson's proposal was approved unanimously, with the understanding that a revised letter would be prepared for the Board's consideration at a future meeting before being sent to all Federal Reserve Banks informing them of the Board's decision on this matter.

Classification of member banks in the Fifth District (Item No. 2).

There had been circulated a memorandum from the Division of Bank Operations dated March 28, 1960, attaching letters dated March 11 and March 23, 1960, from the Richmond Reserve Bank concerning a proposed change in the classification of member banks for electoral purposes. There was also attached to the memorandum a draft of letter to the Richmond Bank approving the classification recommended by it. The memorandum noted that the present classification of member banks in the Richmond District had been in effect since June 30, 1954, and that a review by the Reserve Bank of the current grouping in the light of the Board's formula indicated that a change would be in order at this time. The Board's formula was suggested as a general guide in classifying member banks for the purpose of electing Class A and Class B directors (S - 1521; F.R.L.S. #3120).

The formula reads:

The number of member banks in Group 2 will be approximately one-third of the total number of member banks in the district, with the number of member banks in Group 1 as nearly as may be in the

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same ratio to the total number of all member banks as the combined capital and surplus of member banks in Group 3 bears to the combined capital and surplus of all member banks.

In response to a question from Governor Shepardson, Mr. Daniels said that the proposed changes would move 16 banks from Group 1 to Group 2, and 68 banks from Group 2 to Group 3, thereby placing 31 per cent of the number of banks in Group 2. This compared favorably with the current grouping of banks within the New York, St. Louis, and Dallas Districts. He pointed out that this classification endeavored to anticipate as much as was possible future growth of banks.

Governor Robertson observed that, although he would not object to the proposed regrouping of banks, there appeared to be an inherent defect in the statute which gave a relative handful of banks in Group 1 as much influence in the choice of directors as a great many smaller banks in Group 3. On the other hand, he did not regard this as a great issue.

Unanimous approval was then given to the letter to the Richmond Reserve Bank in the form of attached Item No. 2.

Mr. Daniels withdrew from the meeting at this point.

Demand deposit classification for banks adopting automation techniques (Item No. 3). There had been distributed a draft letter to the Presidents of all Federal Reserve Banks prepared pursuant to the understanding at the Board meeting on April 6, 1960, regarding a proposed classification and coding of demand deposits at commercial

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banks. The letter referred to the recommendation from the System Banking and Credit Policy Committee in its memorandum of March 16, 1960, that action be taken with respect to the proposed classification and coding of demand deposits. The letter also noted consideration of this topic at the joint meeting of the Board and the Conference of Presidents on March 22, 1960, at which time the thought was expressed that a classification would be desirable and that it would be helpful if as many banks as possible were to use the same classification system. However, question had been raised at the joint meeting whether the Reserve Banks should distribute the proposed classification to all member banks or whether it would be preferable to discuss the matter first with banks known to be actively interested in automation of record keeping. The view was expressed in the proposed letter from the Board to the Reserve Banks that the deposit classification proposals should be made available to member banks at an early date and that, accordingly, each Reserve Bank should take the steps necessary to bring to the attention of all member banks in its District the fact that such a classification was available.

Following discussion, the draft letter, in the form of attached Item No. 3, was unanimously approved, with the understanding that System representatives would also communicate with various supervisory agencies and trade corporations, as recommended by the Banking and Credit Policy Committee, to promote understanding and acceptance of the proposals.

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Messrs. Young, Conkling, and Eckert then withdrew and Mr. Brill, Associate Adviser, Division of Research and Statistics, entered the room.

Reporting by unregulated lenders on Form FR 728 (Items 4 and 5).

There had been distributed a memorandum dated April 21, 1960, from the Legal Division attaching a draft of letter to all Reserve Bank Presidents concerning efforts to secure more complete reporting by unregulated lenders on Form FR 728 under section 221.3(j) of Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks. The memorandum noted that the time for filing Form FR 728, required of so-called "unregulated lenders" under section 221.3(j) of Regulation U, expires on May 15, 1960. It was indicated that the completed forms received to date probably did not represent more than a small proportion of the "unregulated business" lending that should be reported. It was believed that substantial amounts of unreported loans were being made through multiple corporate shells used, perhaps successively, by certain groups, particularly in New York City. Moreover, there might still be lenders in each Federal Reserve District who were ignorant of the requirement. It was the view of the Legal Division, therefore, that a further effort should be made through member banks of the System to notify these lenders before May 15. In conformance with this thought, there were attached to the memorandum a form letter addressed to the member banks and a covering letter to the Reserve Banks.

Miss Hart said that the Legal Division concurred in a suggestion made by Mr. Sherman that instead of mailing to each Reserve Bank a draft of letter to be sent to the member banks in its District on this



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subject, it would be preferable to convert it into a memorandum of information that could be used in whatever manner the Reserve Banks desired in informing banks in their districts of the reporting requirement.

Following discussion, unanimous approval was given to a letter to all Reserve Bank Presidents and an enclosed memorandum to member banks in the forms of attached Items 4 and 5, with the understanding that copies of the letter and the memorandum also would be sent to the Federal Deposit Insurance Corporation, the Comptroller of the Currency, and the National Association of Supervisors of State Banks.

Miss Hart then withdrew from the meeting.

Interlocking directorates under section 32 of the Banking Act of 1933. Governor Mills asked whether the Legal Division and the Division of Examinations had maintained liaison with the Securities and Exchange Commission with respect to the activities of open-end investment trusts in which connection members of boards of directors of such trusts or management corporations related thereto might be serving simultaneously as directors of member banks. He then made reference to the recently publicized operations of Hugh Long and Company and its affiliated open-end investment trusts. In his view, although such activities were not illegal, they should be subjected to close scrutiny by the Federal bank supervisory agencies.

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Mr. Solomon replied that he understood the Securities and Exchange Commission was concerned with this question from the viewpoint of attempting to prevent windfall profits. As for the Board's position on this question, he referred to the Board's action on February 24, 1960, replying in the negative to an inquiry whether, under section 32 of the Banking Act of 1933, a director of a member bank may serve as the director of a closed-end investment company in the process of being organized. He went on to say, following an observation from Governor Robertson, that the requirements of the Securities Exchange Act of 1934 were not as strict as those of section 32 of the Banking Act of 1933 administered by the Board since the former Act almost sanctions dual service between directors of banks and open-end investment companies. The objection of the Securities and Exchange Commission to the relationships involved was to the promotion of profits between individuals serving as directors of a management corporation functioning as an investment counselor to the operating investment corporation thereby enabling the former to syphon off the profits of the operating company. In short, Mr. Solomon said, the interest of the Securities and Exchange Commission in this question did not necessarily overlap that of the Board.

Governor Mills replied that should the time come when such practices were brought up in Congress for possible action by that body, the Board might be expected to be well informed on the subject, especially

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if it developed that bank directors were also serving as officers of advisory corporations.

Following further discussion, at the suggestion of Governor Mills, it was agreed that to the extent staff time was available:

(1) A study should be made of the contractual relations existing between operating investment companies and advisory investment companies; and (2) The staff should ascertain from the Securities and Exchange Commission the nature and extent of any information regarding practices in this area that might possibly concern the Board's responsibility for administering section 32 of the Banking Act of 1933 relating to interlocking bank directorates.

Questions from Commission on Money and Credit. Governor Robertson referred to the letter dated January 12, 1960, from Frazar B. Wilde, Chairman of the Commission on Money and Credit, enclosing a set of 22 questions relating to the formulation and execution of monetary policy. He asked how far along the preparation of answers to these questions was.

Mr. Noyes replied that a first draft of answers, some of which had been prepared at the Reserve Banks, had been completed and was now in the hands of the staff for comment. He said that Mr. Lawrence Ritter, of the Commission's staff, had been informed of the progress to date and of the fact the original May 1, 1960, deadline could not be met. There followed a discussion, during which Mr. Noyes indicated that the

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Board could expect to see the finished product within the next few weeks, with a view towards transmitting the completed set of answers to the Commission soon after June 1, 1960.

Continental Bank and Trust Company, Salt Lake City, Utah. Mr. Sherman referred to the current proceeding of the Board regarding adequacy of capital of Continental Bank and Trust Company, Salt Lake City, Utah, with respect to which the Board heard oral argument on July 22, 1959. He noted that the Legal Division and the Division of Examinations expected to submit memoranda regarding the case for the consideration of the Board in the week of May 9, 1960. He pointed out that May 25, 26, and 27, next appeared to be the only days until mid-summer when all members of the Board, excepting Governor Robertson who had withdrawn from participation in the decision of this matter, would be available for consideration of this case.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

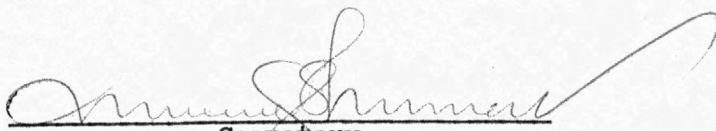
Memorandum dated April 26, 1960, from Mr. Johnson, Director, Division of Personnel Administration, recommending the appointment of Juliann Perkins as Substitute Maid in that Division, with salary at the rate of \$11.44 for each day worked, effective the date she assumes her duties.

Letter to the Federal Reserve Bank of Atlanta (attached Item No. 6) approving the appointment of J. Frank Fortune as examiner.

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Governor Shepardson today noted on behalf of the Board a memorandum dated April 21, 1960, from Mr. Solomon, Director, Division of Examinations, stating that Malcolm F. Johnson, Federal Reserve Examiner in that Division, was being transferred from the field staff to the Washington office, with no change in basic annual salary at the rate of \$7,750, effective April 21, 1960.



Secretary

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 1  
4/26/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 26, 1960



Mr. Laurence H. Jones, Vice President  
and Cashier,  
Federal Reserve Bank of Chicago,  
Chicago 90, Illinois.

Dear Mr. Jones:

This refers to your letter of April 1, regarding a penalty of \$92.05 incurred by the Warren Bank, Warren, Michigan, for a deficiency of 7.3 per cent in its required reserves for the biweekly computation period ended March 23, 1960.

It is noted that the deficiency resulted from the fact that the subject bank has been calculating its reserve position by using the beginning of the day reserve balance rather than the end of day balance since becoming a member of the Federal Reserve System in 1956; under this method it would not have been deficient during the biweekly period ended March 23; it has consistently carried excess reserves, averaging a little better than 10 per cent of requirements, and has incurred only three small penalties since becoming a member, all of which your Bank was able to waive under the provisions of the Board's instructions; and that you believe the bank now understands the proper method of calculating its reserve position and will consistently maintain an adequate reserve balance in the future.

In the circumstances, and in view of your recommendation, the Board authorizes your Bank to waive assessment of the penalty of \$92.05 for the period ended March 23.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 2  
4/26/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 26, 1960

Mr. Hugh Leach, President,  
Federal Reserve Bank of Richmond,  
Richmond 13, Virginia.

Dear Mr. Leach:

As recommended in your letters of March 11 and 23, 1960, the Board has changed the classification of member banks in the Fifth Federal Reserve District, for the purpose of electing Class A and Class B directors, to the following:

| <u>Group</u> | <u>Banks with Capital and Surplus of:</u> |
|--------------|---|
| 1            | \$2,000,000 or more                       |
| 2            | \$500,000 but less than \$2,000,000       |
| 3            | Less than \$500,000                       |

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 3  
4/26/60  
Z-5067 (On office  
copies only)

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 26, 1960.

Dear Sir:

The Board has considered the memorandum of March 16, 1960, from the Banking and Credit Policy Committee recommending action with respect to a proposed classification and coding of demand deposits at commercial banks. This memorandum was mentioned at the joint meeting of the Board and the Conference of Presidents held on March 22, 1960, at which time the thought was expressed that a classification would be desirable and that it would be helpful if as many banks as possible were to use the same classification system. There was, however, a question whether the Reserve Banks should distribute the proposed classification to all member banks, or whether it would be preferable to discuss it first with banks known to be actively interested in automation of record keeping.

The Board feels that the deposit classification proposals should be made available to member banks at an early date. Availability of these materials while banks are beginning to think about automation of their deposit accounting or are still in the planning stages for installation of automated systems would be advantageous. In particular, this would afford banks an opportunity to develop optimum programs for meeting present and most foreseeable data needs of the System. It should also aid banks in developing improved classification systems for internal management purposes.

Accordingly, the Board suggests that each Federal Reserve Bank take the steps necessary to bring to the attention of all member banks in its District the fact that such a classification is available. There would be no objection, of course, to making the classification also available to any nonmember banks which might be interested. Decisions with respect to method of distribution and extent of coverage are left to the discretion of the Reserve Bank. A draft of a proposed letter of transmittal that might be used by the Reserve Banks, if they so desire, appears as Appendix A of the Automation Working Group report which was attached to the Banking and Credit Policy Committee memorandum of March 16.



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You will recall that the proposed classification is in two parts. Sample copies of the two Schedules are enclosed. The distribution of Schedule A, which relates to broad types of deposits, might appropriately be quite general among banks, while the distribution of Schedule B, which relates to subclassification of business deposits by type of industry, probably should be much more restricted. Additional copies for distribution may be obtained from the Board's Division of Administrative Services, or you may wish to duplicate your own.

Schedule A is a basic classification encompassing all major categories of existing reporting forms used by bank supervisory agencies and the Treasury, including the call report, weekly report of condition, deposit ownership survey, and report on balances of foreign holders. It also contains three important subclassifications of nonbank financial businesses not now used in reporting forms for demand deposits, but which are used in a recent revision of the reporting forms for loans. This schedule provides an orderly arrangement of deposit categories and a suggested code number for each item. It should prove helpful to any bank, large or small, desiring to evaluate the adequacy of its bookkeeping system or wishing to improve its demand deposit operations.

Schedule B is a suggested supplemental subclassification of the domestic nonfinancial businesses in Schedule A showing detail for type of industry. This schedule would be of particular interest to banks in which business accounts are relatively important and which have installed or are planning to install an automated deposit accounting system. For the most part, this would be only the larger city banks, but in view of prospects for cooperative and various other types of service arrangements, some medium-sized and smaller banks might also be interested.

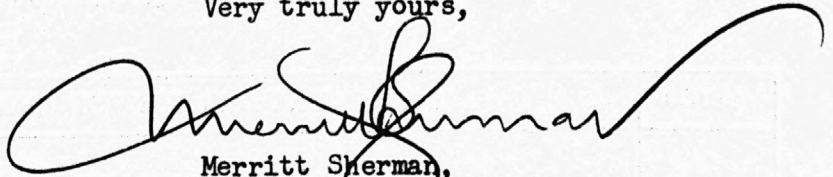
In presenting these proposals to member banks, the Reserve Banks no doubt will wish to emphasize that they are not a request for additional data. They are merely suggested classifications and codes for banks that can benefit from them and that care to use them. They do, however, represent classifications currently in use and some additional breakdowns that would be of considerable value for monetary policy determination. Banks should be encouraged to take them into account in planning and programming for automation or in making any rearrangements in their record-keeping systems.

Concurrent with Reserve Bank distribution of the schedules to member banks, it is planned that System representatives will communicate with various supervisory agencies and trade groups to promote understanding and acceptance of the proposals. The Automation Working Group will work with equipment manufacturers concerning incorporation

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of the deposit coding proposals in their technical manuals and sales literature. It is also contemplated that an article discussing the proposals will be published in a forthcoming issue of the Federal Reserve Bulletin in order to bring them to the attention of others who may be interested.

Very truly yours,

A large, flowing handwritten signature in black ink, which appears to read "Merritt Sherman". The signature is written over the typed name and title.

Merritt Sherman,  
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

April 26, 1960.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

PROPOSED CLASSIFICATION AND CODE STRUCTURE  
FOR COMMERCIAL BANK DEMAND DEPOSITS, BY HOLDER

SCHEDULE A

Basic Deposit Classification

| DEMAND DEPOSIT CATEGORY   | CODE |
|---|------|
| I. Individuals, partnerships, and corporations  |      |
| A. Domestic individuals (excluding accounts for farm or other business purposes)  | 03   |
| B. Domestic non-profit organizations  | 04   |
| C. Domestic business  |      |
| 1. Nonfinancial <sup>1/</sup>   |      |
| a. Corporate, nonfinancial business   | 34   |
| b. Noncorporate, nonfinancial business  |      |
| 1. Non-farm business  | 62   |
| 2. Farm and ranch operators (including owners and tenants, but not landlords)   | 63   |
| 2. Financial, nonbank   |      |
| a. Trust departments of own and other commercial banks <sup>2/</sup>  | 66   |
| b. Sales, commercial, and personal finance companies  | 71   |
| c. Security brokers, dealers, and exchanges   | 72   |
| d. Commodity contracts brokers, dealers, and exchanges  | 73   |
| e. Other non-bank financial institutions (including holding and other investment companies, clearing house associations, insurance carriers, mortgage companies, savings and loan associations, agricultural credit associations, etc.) | 74   |

<sup>1/</sup> For supplemental classification of nonfinancial business by industry, see Schedule B.

<sup>2/</sup> To distinguish between demand deposit accounts of trust departments of own and other commercial banks, if desired, code "Own" 65, "Other" 66.

April 26, 1960.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEMPROPOSED CLASSIFICATION AND CODE STRUCTURE  
FOR COMMERCIAL BANK DEMAND DEPOSITS, BY HOLDER

## SCHEDULE A--2

## Basic Deposit Classification

| DEMAND DEPOSIT CATEGORY   | CODE |
|---|------|
| D. Foreign (nonbank) <sup>3/</sup>  |      |
| 1. Foreign governments, international institutions,<br>and other foreign official         | 77   |
| 2. Other foreign non-bank (including foreign<br>individuals and businesses, etc.)         | 79   |
| II. Domestic Government   |      |
| A. United States Government   |      |
| 1. Special depositaries (tax and loan accounts)   | 82   |
| 2. Other (including general and other bank<br>depositaries)                               | 84   |
| B. States and political subdivisions  | 89   |
| III. Banks  |      |
| A. Banks in United States   |      |
| 1. Commercial banks (excluding trust departments<br>of commercial banks)                  | 93   |
| 2. Mutual savings banks   | 94   |
| B. Banks in foreign countries <sup>3/</sup>   |      |
| 1. Foreign central banks  | 96   |
| 2. Other foreign banks  | 98   |
| IV. Certified and officers' checks, cash letters of credit<br>and travelers' checks, etc. | 99   |

<sup>3/</sup> All banks whose liabilities to foreigners on their own account and for the account of others average \$500,000 or more over any six month period are required to report on these liabilities to foreigners by country. Since there are approximately sixty countries for which separate figures must be submitted, an additional 2-digit code would be necessary to identify foreign accounts.

April 26, 1960.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEMPROPOSED CLASSIFICATION AND CODE STRUCTURE  
FOR COMMERCIAL BANK DEMAND DEPOSITS, BY HOLDER

## SCHEDULE B

Supplemental Classification of Nonfinancial  
Business, by Industry

| Industry  | Corporate | Noncorporate |
|---|-----------|--------------|
| Durable goods manufacturing   | 12        | 42           |
| Nondurable goods manufacturing                                      | 17        | 47           |
| Mining  | 18        | 48           |
| Wholesale trade   |           |              |
| Commodity dealers (farm products--raw materials)                    | 19        | 49           |
| Other wholesale trade   | 20        | 50           |
| Retail trade  | <u>23</u> | <u>53</u>    |
| Automobile dealers and filling stations                             | 21*       | 51*          |
| General merchandise and apparel                                     | 22*       | 52*          |
| Other retail trade  | 23*       | 53*          |
| Transportation, communications, and other public utilities          | <u>26</u> | <u>56</u>    |
| Transportation  | 24*       | 54*          |
| Communications  | 25*       | 55*          |
| Other public utilities  | 26*       | 56*          |
| Construction  | 27        | 57           |
| All other nonfinancial, nonfarm domestic business (mainly services) | <u>31</u> | <u>61</u>    |
| Personal services   | 28*       | 58*          |
| Business services   | 29*       | 59*          |
| Motion pictures and other amusements                                | 30*       | 60*          |
| All other   | 31*       | 61*          |
| Farm and ranch operators  | 33        | 63           |

\* Data as to these subgroups are of secondary order of importance; they are suggested as guides to be followed by any banks that may set up more detailed classifications. In the event the subgroups are classified, the code used for the whole group should be retained for the last-listed "Other" subgroup.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

S-1737  
Item No. 4  
4/26/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 27, 1960.



Dear Sir:

This refers to the Board's letter of April 8, 1960, extending to May 15, 1960, the time for filing Form FR 728 which, under section 221.3(j) of Regulation U, must be filed by all persons not subject to Regulation T or Regulation U who, in the ordinary course of business, extend credit for the purpose of purchasing or carrying securities registered on a national securities exchange.

While there has been a significant response to the publicity given by the Board to the Form, and to the extension of time for filing, it seems probable that a fairly large number of lenders are not yet aware that they are subject to the requirement. The Board believes it would be helpful if the efforts of banks could be enlisted in discovering and notifying these lenders, particularly where the lenders are customers of the banks and might be subject to section 221.3(q) as persons "engaged principally, or as one of the person's important activities, in the business of making loans" for the purpose described above.

Bank loans described in that provision are, of course, regulated loans whether or not secured by any stock. Banks will wish to know whether any of their loans are covered by this section. The information required on Form FR 728 will assist the Board in making this determination. In order to focus the efforts of banks to this end, the Board would appreciate it if you would communicate with the banks in your District, suggesting that they ask borrowers to file Form FR 728 in every case where they have any reason to suppose the borrower's business may be of the kind described in section 221.3(q). The enclosed memorandum may be of assistance to you in approaching banks in your District. It would also be appreciated if you would apprise the State banking authorities whose capital cities are located in your District of this program and enlist their cooperation so far as practicable.

Very truly yours,

Merritt Sherman,  
Secretary

Enclosure  
TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

Memorandum in Respect to Filing Form FR 728

The Board of Governors has recently adopted a reporting form, FR 728, which must be filed by all persons other than banks subject to Regulation U, and brokers or dealers subject to Regulation T, who extend credit in the ordinary course of business for the purpose of purchasing or carrying securities registered on a national securities exchange. The time for filing the Form was recently extended to May 15, 1960, and persons failing to comply may be subject to criminal penalties.

At the same time that the Board adopted the amendment to section 221.3(j) of Regulation U, under which Form FR 728 was promulgated, it also adopted section 221.3(q), requiring banks to treat as regulated all loans to persons "engaged principally, or as one of the person's important activities, in the business of making loans" for the purpose described above. Banks will, of course, wish to know whether any of their loans are subject to that section. The information required on Form FR 728 will assist the Board in making this determination. For this reason, banks may find it helpful to call the filing requirement to the attention of their borrowers in all cases where there is any reason to suppose that the borrower's business may be of the kind described in section 221.3(q).

In this connection it should be noted that a lender may be engaged "principally" or as one of his important activities in this business even though only a minor proportion of his loans is for the described purpose, since the proportion of loans is only one of the tests which would be applied in making the determination. It should also be noted that the coverage of Form FR 728 is quite wide, and that many persons are required to file this Form even though not engaged in a business of the kind described in section 221.3(q). Lenders are required to file the Form if they have had outstanding on or after December 15, 1959, as much as one loan for the purpose of purchasing or carrying securities registered on a national securities exchange.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 6  
4/26/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 26, 1960



Mr. J. E. Denmark, Vice President,  
Federal Reserve Bank of Atlanta,  
Atlanta 3, Georgia.

Dear Mr. Denmark:

In accordance with the request contained in your letter of April 19, 1960, the Board approves the appointment of J. Frank Fortune as an examiner for the Federal Reserve Bank of Atlanta, effective May 2, 1960.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.