Minutes for July 18, 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
Gov. Szymczak
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. King
Minutes of the Board of Governors of the Federal Reserve System

on Monday, July 18, 1960. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Thomas, Adviser to the Board
Mr. Young, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Koch, Adviser, Division of Research and Statistics
Mr. Keir, Chief, Government Finance Section, Division of Research and Statistics

Report on money market. Mr. Keir reported on recent developments in the money market including reference to Treasury financing operations, and Mr. Thomas reported on the reserve situation of member banks.

At the conclusion of this report Messrs. Thomas, Young, Molony, Koch, and Keir withdrew and the following entered the room:

Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel Administration
Mr. Rudy, Special Assistant, Legal Division
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Smith, Assistant Director, Division of Examinations
Mr. Landry, Assistant to the Secretary
Mr. Hooff, Assistant Counsel
Miss Hart, Assistant Counsel
Items circulated to the Board. The following items, which had been circulated to the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

Letter to Bank of America, New York City, granting consent to acquire shares of Banque Africaine Internationale, a corporation to be organized in Brussels, Belgium, in exchange for shares of Societe Congolaise de Banque, Leopoldville, Belgian Congo.

Telegram to the Federal Reserve Agent at Kansas City authorizing the issuance of a limited voting permit to Keystone Corporation, Kansas City, Missouri, covering stock in The First National Bank of Lawrence, Lawrence, Kansas.

Letter to the Federal Reserve Bank of Chicago approving the payment of salaries to two officers at the respective rates fixed by the Board of Directors.

At this point Messrs. Hostrup and Goodman withdrew from the meeting.

Forthcoming conference with representatives of Cuban banks.

Governor Robertson reported that a group representing American commercial banks in Cuba was expected to visit his office some day this week to confer on certain problems facing these banks due to recent political developments in Cuba. He said that he would report back to the Board on the results of any such conference.

Time certificate of deposit--transfer of account (Item No. 4).

There had been circulated to the Board under date of June 27, 1960, a memorandum from Mr. Rudy concerning an inquiry from the Federal Reserve Bank of St. Louis.
Bank of St. Louis as to whether a form of time certificate issued by a member bank providing that the "certificate is transferable only on the books of this bank, in which event a new certificate of like tenor and amount will be issued to the transferee" is consistent with Regulation Q, Payment of Interest on Deposits. The memorandum stated that the question at issue was whether such a provision would amount to a "payment" before maturity if the original depositor transferred the certificate before maturity to another person. The position was taken in the memorandum that, despite a 1934 adverse ruling of the Board as to transfer of a savings account, the certificate in question would not be inconsistent with Regulation Q inasmuch as transfer of the certificate on the books of the bank and issuance of a new certificate would not constitute a "payment" before maturity. Attached to the memorandum was a draft of letter to the Federal Reserve Bank of St. Louis that would express this view and would note that because of this conclusion the Board's ruling of June 4, 1934 (F.R.L.S. #6416) was superseded by this letter.

Governor Mills asked for clarification as to the negotiability of the form of time certificate issued by the member bank in the Eighth Federal Reserve District. Should the instrument be fully negotiable, Governor Mills said, enabling the original holder of the instrument to receive full pro rata payment of interest accrued up to the point of negotiation, the question would be raised whether in fact the
Certificate was being paid prematurely, thereby circumventing the requirement of Regulation Q that a penalty rate be charged on such payment.

Mr. Rudy replied that he had not received the impression that a pro-rating of interest earned of the type referred to by Governor Mills was involved in the arrangement concerned. He noted that the position taken in his memorandum agreed with a ruling of the Board made in 1934, that a depositor may transfer his time certificate to another person before maturity if there is no evidence of intent to evade the law. In such a case, he said, the bank does not actually pay out the funds on the deposit even though the title of the certificate is transferred. He went on to say that in the present case the only difference appeared to be that the certificate expressly provides for transfer on the books of the bank and issuance of a new certificate to the transferee. He called particular attention to the fact that no funds were paid out by the bank under this arrangement. It was the thought of the Legal Division that presumably the statutory prohibition of the payment of time deposits before maturity was intended to prevent evasions of limitations on the maximum rates of interest on such deposits and the prohibition against payment of any interest on demand deposits. Mr. Rudy indicated that the mere transfer of a time deposit and the issuance of a new certificate to a new depositor did not deprive the bank of the use of the funds or change the period of time for which
the bank initially anticipated it would have the use of the funds. Consequently, it was the Legal Division's view that transfer of the certificate on the books of the bank and issuance of a new certificate would not constitute "payment" before maturity.

Mr. Hackley observed that this was a question about which there could be differences of opinion. He said that it had always been assumed by the Legal Division that a depositor had the privilege of assigning a certificate of deposit and that such assignment made no change in the duration of the original deposit. He noted that the only difference in the proposed ruling from the ruling of 1934 referred to by Mr. Rudy was that it was now proposed to permit a change in the name of the owner on the books of the bank.

Governor Mills suggested that in the light of this discussion it be made perfectly clear to the Federal Reserve Bank of St. Louis that the time certificate of deposit in question was not negotiable and that title to it passed only by assignment.

It was understood that the letter to the Federal Reserve Bank of St. Louis would be revised to take account of Governor Mills' suggestion, and approval was then given to the view that the certificate in question would not permit "payment" before maturity in violation of the law and Regulation Q. A copy of the letter, as revised in light of the discussion and mailed under date of July 19, 1960, is attached as Item No. 4.

Mr. Rudy then withdrew from the meeting.
Regulation U--collateral required under special subscription accounts (Item No. 5). Copies of a memorandum from Miss Hart had been distributed under date of July 14, 1960, attaching a draft of telegram to the San Francisco Reserve Bank that would advise that the Board believes loans under section 221.3(p) of Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks, to be subject to the same restrictions as are loans under the corresponding section of Regulation T relating to special subscription accounts.

Miss Hart said that the question before the Board was, in brief, whether when the 1949 amendments to section 220.4(h) of Regulation T and section 221.3(p) of Regulation U were made, it was intended to establish a uniform pattern whereby the securities being acquired and no others were to serve as collateral for the loan involved. She added that the New York Reserve Bank had stated that this question had arisen on a number of occasions and that it had uniformly interpreted the requirement under Regulation U to conform with that under Regulation T. She noted that the reason for bringing this question to the Board's attention at the present time was receipt of a telegram from the San Francisco Reserve Bank inquiring whether when a loan is made under section 221.3(p) of Regulation U for the purpose of enabling the borrower to exercise rights to acquire stock, the loan may be secured by stock other than the stock acquired. It was the view of the Legal Division,
she said, that although the language of this section of the Regulation
does not explicitly require that the stock acquired be pledged to
secure the loan, it was intended that loans under this section be subject
to the same restrictions as are loans under the corresponding section
of Regulation T. Should this be the view of the Board, it was recom-
mended that a telegram to this effect be sent to the San Francisco
Reserve Bank. For this purpose a draft of such telegram was attached
to her memorandum of July 14.

Governor Balderston referred to a statement in the memorandum
that consideration be given in connection with future amendments to
Regulation U to adding a few words to section 221.3(p) in order to
make clear the implicit requirement that the stock to be acquired shall
serve as collateral for the loan.

Miss Hart replied that a change of this nature in Regulation U
would be desirable sometime in the future, although the present language
of the Regulation in this regard constituted no administrative problem.

Mr. Solomon expressed the opinion that there would be no great
difficulty should the language of section 221.3(p) be left unchanged
until other amendments to Regulations T and U were adopted; and Mr.
Hackley pointed out that the press release which accompanied publication
of the 1949 amendments to both Regulations described them as being
intended to increase from 50 to 75 per cent "the market value for
securities acquired through the exercise of subscription rights ..."
and as requiring "that such transactions shall be set aside in a special account and that substitutes or withdrawals may not be made in the account."

Unanimous approval was then given to the sending of a telegram to the San Francisco Reserve Bank advising that the Board believes loans under section 221.3(p) of Regulation U are subject to the same restrictions as are loans under the corresponding section of Regulation T, with the understanding that minor editorial changes would be made in the telegram before it was sent. A copy of the telegram as sent is attached in the form of Item No. 5.

Miss Hart then withdrew from the meeting.

Application to organize a national bank at McLean, Virginia

(Item No. 6). Pursuant to the understanding at the meeting on July 13, 1960, the Federal Reserve Bank of Richmond had been informed that the Board was disposed to recommend favorable consideration by the Comptroller of the Currency of a proposal to establish a new national bank at McLean, Virginia. Under date of July 14, 1960, Vice President Armistead of the Richmond Reserve Bank had written to say that the Reserve Bank did not feel strongly about the matter. His letter had also summarized the principal factors that the Bank had in mind in reaching its decision that an unfavorable recommendation should be made to the Comptroller on this application. The Division of Examinations had also advised that establishment of the proposed bank not be recommended favorably to the Comptroller.
Governor Shepardson stated that after reading the letter from the Reserve Bank he had been led to revise his views on the application. Consequently, he would vote to send an unfavorable recommendation to the Comptroller of the Currency.

Governor King said that he had not had sufficient opportunity to study the question adequately due to his recent absence from the Board. Therefore, he wished to be recorded as abstaining from the vote on this question.

Following discussion, a letter to the Comptroller of the Currency recommending favorably on the application to organize a national bank at McLean, Virginia, was approved, with Governor Shepardson voting in the negative and Governor King abstaining. A copy of the letter is attached as Item No. 6.

Messrs. Johnson, Nelson, Landry, and Hooff then withdrew from the meeting.

Report of examination of the Federal Reserve Bank of Dallas. There had been circulated to the Board the report of examination of the Federal Reserve Bank of Dallas made as of March 25, 1960. At the request of Governor Balderston, Mr. Smith commented on the examination report, including in his remarks the statement that nothing in the report appeared to require action by the Board at this time.

During discussion of the examination report, Governor Robertson noted an instance of more or less continuous borrowing from the Reserve Bank by a member bank. He suggested that it would be desirable to
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7/18/60

record that the Board took cognizance of any such cases and that,

where necessary, additional steps were taken to correct a situation.

After a discussion of how this might be done, it was agreed that this

subject be taken up for general discussion at the joint meeting of the

Board and the Presidents of the Federal Reserve Banks following the

meeting of the Conference of Presidents to be held on September 12, 1960.

The meeting then adjourned.

Secretary's Notes: Pursuant to the recom-
mendations contained in memoranda from
appropriate individuals concerned, Governor
Shepardson today approved on behalf of the
Board increases in the basic annual salaries
of the following persons on the Board's staff,
effective July 24, 1960:

Claudia Mahoney, Minutes Clerk, Office of the Secretary, from
$4,145 to $4,250 per annum.

Phyllis H. Lockhart, Draftsman, Division of Research and Statistics,
from $4,040 to $4,145 per annum.

Anna S. Courtney, Supervisor, Recording and Stenographic Section,
Division of Examinations, from $6,015 to $6,180 per annum.

Governor Shepardson today noted that applica-
tions for retirement had been filed by the
following persons:

F. Allison Kramer, Accounting Clerk, Office of the Controller,
effective August 1, 1960.

Evelyn Bryan, Supervisor, Member Bank Statement Unit, Division
of Bank Operations, effective September 1, 1960.

Secretary
Jul 18, 1960

Mr. Tom B. Coughran,
Executive Vice President,
Bank of America,
61 Broad Street,

Dear Mr. Coughran:

On the basis of the information furnished in your letter of June 13, 1960, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants its consent for Bank of America to acquire (in exchange for 20,000 shares of the capital stock of Societe Congolaise de Banque) and hold 20 per cent (par value 20 million Belgian Francs) of the shares of capital stock of Banque Africaine Internationale, a corporation to be organized in Brussels, Belgium.

The Board's consent is granted upon condition that Bank of America shall dispose of its holdings of stock in Banque Africaine Internationale as promptly as practicable, in the event that Banque Africaine Internationale should at any time (1) engage in issuing, underwriting, selling or distributing securities in the United States; (2) engage in the general business of buying or selling goods, wares, merchandise, or commodities in the United States or transact any business in the United States except such as is incidental to its international or foreign business; or (3) conduct its operations in a manner inconsistent with Section 25(a) of the Federal Reserve Act or regulations thereunder.

It is understood that upon the completion of its organization, Banque Africaine Internationale will own all of the stock of Banque du Ruanda-Urundi, a corporation to be organized in Usumbura, Ruanda-Urundi, and Societe Congolaise de Banque, Leopoldville, Belgian Congo.

Upon completion of the organization of the proposed corporations, it will be appreciated if you will furnish the Board of Governors, (1) copies of the articles of association and by-laws, (2) balance sheets, and (3) lists of officers and directors of each of the corporations. Please advise the Board of Governors, through the Federal Reserve Bank of New York, when the new corporations are established and opened for business.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
TELEGRAM
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

July 18, 1960

HALL - KANSAS CITY

KECEA

A. Keystone Corporation, Kansas City, Missouri.
B. The First National Bank of Lawrence, Lawrence, Kansas.
C. None.
D. At any time prior to October 15, 1960, at a special meeting of shareholders of such bank, or any adjournments thereof, to reduce the par value of common stock of such bank from $100.00 to $20.00 per share and take all actions necessary in connection therewith, provided that all actions taken are in accordance with plans satisfactory to the Comptroller of the Currency.

(Signed) Merritt Sherman

Definition of KECEA:
The Board authorizes the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).
CONFIDENTIAL (FR)

Mr. Carl E. Allen, President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Allen:

The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of Chicago, for the period September 1 through December 31, 1960, at the rates indicated, which are the rates fixed by your Board of Directors as reported in your letter of July 7, 1960:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Annual Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charles J. Scanlon</td>
<td>First Vice President</td>
<td>$25,000</td>
</tr>
<tr>
<td>Harry S. Schultz</td>
<td>Vice President</td>
<td>16,000</td>
</tr>
</tbody>
</table>

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman, Secretary.
Mr. Geo. E. Kroner, Vice President,
Federal Reserve Bank of St. Louis,
St. Louis 66, Missouri.

Dear Mr. Kroner:

This refers to your letter of May 27, 1960 transmitting a form of time certificate of deposit proposed to be used by the State Savings Bank, Lebanon, Missouri, and inquiring whether, in the light of the Board's 1934 ruling regarding transfer of a savings account, the certificate would contemplate a payment to the original payee before maturity of the certificate.

The certificate in question contains the following provision:
"This certificate is transferable only on the books of this bank, in which event a new certificate of like tenor and amount will be issued to the transferee".

Since the funds in the deposit would not be paid out by the bank prior to the maturity stated in the certificate, the Board is of the opinion that the certificate would not permit "payment" before maturity in violation of the law and Regulation Q, even though a transfer of the certificate by the original depositor to another person would have to be recorded on the books of the bank and even though a new certificate would be received in the name of the new depositor. Accordingly, the certificate in question would not be inconsistent with the law and the regulation.

In the case of a time certificate of deposit which is negotiable, it would be necessary to view transfers on the books of the bank, or the issuance of a new certificate, in the light of whether the transaction is made in good faith or for the purpose of evading the prohibition in question, as those principles are expressed in the Board's letter of March 27, 1934, X-7941 (F.R.L.S. #632).

In view of this conclusion, the Board's ruling of June 4, 1934, (F.R.L.S. #6416) is superseded by this letter.

Very truly yours,

(Signed) Merritt Sherman
Merritt Sherman,
Secretary.
July 18, 1960

Hemings - San Francisco

Reference received July 11, asking whether a bank may accept collateral other than the stock being acquired as security for loan under section 221.3(p) of Regulation U, in view of fact that language of original section prior to May 16, 1949 amendment explicitly gave such right. Since corresponding amendment to Regulation T explicitly removed right to accept other stock as collateral for loans to exercise subscription rights in the case of brokers, and since accompanying press release described both amendments as quote increasing from 50 to 75 per cent the loan value for securities acquired through the exercise of subscription rights unquote and as specifying quote that such transactions shall be set aside in a special account and that substitutions or withdrawals may not be made in the account unquote Board is of opinion that section 221.3(p), despite language literally capable of a contrary interpretation, should similarly be interpreted as permitting only use of stock being acquired as security for loan under that section.

(Signed) Merritt Sherman

Sherman
July 18, 1960

Attention Mr. W. M. Taylor,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated March 16, 1960, enclosing copies of an application to organize a national bank at McLean, Virginia, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application furnished by the Federal Reserve Bank of Richmond indicates generally favorable findings with respect to the proposed capital structure of the bank, future earnings prospects, and proposed management. While the need for another bank may not be urgent, there seems to be sufficient potential growth in the area to support the institution. Accordingly, the Board of Governors recommends favorable consideration of the application.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.