

Minutes for May 10, 1961

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

MM

Gov. Szymczak

Gov. Mills

[Signature]

Gov. Robertson

Gov. Balderston

CCB

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Minutes of the Board of Governors of the Federal Reserve System
on Wednesday, May 10, 1961. 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. Kenyon, Assistant Secretary
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Furth, Adviser, Division of International
Finance
Mr. Leavitt, Assistant Director, Division of
Examinations
Mrs. Semia, Technical Assistant, Office of the
Secretary
Mr. McClelland, Assistant to the Director,
Division of Examinations
Mr. Poundstone, Review Examiner, Division of
Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Minneapolis on May 5, 1961, 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.

Head office location of Chemical Overseas Finance. A memorandum dated May 8, 1961, from the Division of Examinations had been distributed in connection with the application of Chemical International Finance, Ltd., New York City, for consent to the removal of the head office of its subsidiary, Chemical Overseas Finance Corporation, a Panamanian corporation, to Paget, Bermuda.

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On December 10, 1959, the Board granted its consent to Chemical International Finance to purchase and hold shares of capital stock of a corporation to be formed under the laws of the Republic of Panama and to be known as Chemical Overseas Finance Corporation. The articles of incorporation provided, among other things, that the domicile of the corporation would be in the City of Panama, Republic of Panama; that the corporation would have power, subject to the provisions of Panamanian law, to keep its stock register, records, books, and assets, to engage in business, and to have one or more branches and/or offices at any place in any part of the world as might be determined by its board of directors; and that the board of directors might appoint a registered agent in Panama and replace such agent at any time. In requesting permission to invest in Chemical Overseas Finance, Chemical International Finance stated that Panama had been selected as the country in which to incorporate because of its proven political and economic stability, its long recognition as a base country, and freedom from currency restrictions.

A memorandum from the Division of Examinations dated November 24, 1959, regarding the proposed investment, included the comment that it was clearly not the purpose of the applicant to use the proposed Panamanian subsidiary for the purpose of doing business exclusively or primarily in Panama. Rather, it would be a foreign-based company that would engage extensively in handling financing and investment transactions throughout Latin America. The comment also was made that it appeared obvious that

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the major consideration of Chemical International Finance in desiring to operate through a Panamanian subsidiary related to the tax advantages available to a foreign-based subsidiary over those available to an Edge corporation directly, or even operating through a branch.

Chemical Overseas Finance Corporation opened for business on December 15, 1959, and a subsequent report of examination stated that the books of the corporation were being maintained in New York City. The current report of examination, received by the Board March 6, 1961, stated that during the examination the principal offices and operations of Chemical Overseas Finance Corporation were transferred from New York City to Paget, Bermuda, effective January 1, 1961, and that an application to the Board of Governors for approval had been submitted by Chemical International Finance. In the confidential section of the report the examiner stated that the purpose of this move was to make the affiliate a completely "off-shore" operation. However, since all transactions would continue to originate from New York, it appeared that effective control of the operation would remain with the directors and officers of the parent company in New York.

In a letter dated February 2, 1961, Chemical International Finance applied on behalf of its wholly-owned subsidiary, "if such approval is necessary," to move the head office of Chemical Overseas Finance Corporation to Bermuda. In a letter dated February 3, 1961, transmitting the application, the New York Reserve Bank expressed the view that the

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only relevant condition in the Board's letter of December 10, 1959, approving the investment by Chemical International in the subsidiary was that the stock should not be held if the subsidiary, except with the consent of the Board of Governors, established any branch or agency, or took any action or engaged in any operation, in Panama or elsewhere, that at that time could not be taken or engaged in by Chemical International itself. The Reserve Bank pointed out that the application of Chemical International in connection with the organization of the subsidiary did not specify the location of the head office, nor did the Board's consent stipulate or refer to the location of the head office. Chemical Overseas Finance had not previously designated a location as its head office, and the Reserve Bank did not feel that its commencement of business in New York City in anticipation of the selection of a head office location abroad should bar the establishment of the head office in Bermuda. Counsel for the New York Reserve Bank was of the opinion that a head office was not a "branch or agency" and that a change in the location of the head office therefore would not constitute the establishment of a branch or agency or otherwise come within the ambit of acts requiring the Board's consent.

The current memorandum from the Division of Examinations suggested, however, that the removal of the head office would come within the ambit of acts requiring the Board's consent because a condition had been imposed under which Chemical Overseas might not take any action, except with the

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Board's consent, that could not be taken by Chemical International Finance itself; and the parent organization could not move its headquarters without obtaining the Board's permission. In the case of a wholly-owned subsidiary in which approximately half of Chemical International's capital was invested, it would seem illogical to suggest that the establishment or removal of a branch or agency required Board consent but the removal of the head office did not. This was especially true since the files revealed no suggestion that any such act was in contemplation when the Panamanian corporation was being organized.

Mr. Furth opened the discussion by expressing the opinion that the only purpose of the change in location of the head office of Chemical Overseas was to complete its detachment from United States soil and therefore from United States tax laws. The Board, he noted, had been disinclined to take into consideration the question of tax avoidance in supervising Edge corporations, because there was no clear indication of a United States Government policy in regard to that problem. Recently, however, the President's tax message to Congress had clarified the position of the Government, and legislation was under consideration. Therefore, it seemed appropriate to him that Government agencies take cognizance of tax avoidance motives.

Governor Robertson asked whether the removal of the head office of Chemical Overseas would be a successful tax avoidance move if the proposed reforms currently under consideration were enacted, to which

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Mr. Furth replied that that would appear to depend on whether the United States had a tax treaty applicable to Bermuda, since the legislation presumably would not abrogate such treaties. In any event, however, even if the move to Bermuda was not a successful tax avoidance device, moves to certain known tax havens would be, and it might be difficult for an agency to permit a move to Bermuda but deny permission to move to another place.

Mr. Hexter commented that the Legal Division's concern had been primarily about the question of the Board's authority over the matter. It did not appear from the files that when the application to invest in Chemical Overseas was under consideration the Board raised any question about the location of the head office. As to the current request for removal of the head office to Bermuda, the Legal Division had in mind that ex post facto approval of the move would raise no question, as a practical matter, on the part of Chemical International or its subsidiary. However, if the Board should lean toward denying the request and requiring that the head office be returned to New York City, the Legal Division would want to look into the matter more closely.

Mr. Solomon remarked that it was possible that Chemical International might have consulted informally with the New York Reserve Bank and been led to believe that there was no need for approval. Also, on the point raised by Mr. Furth, Mr. Solomon suggested that any legislation enacted might be regarded as governing the matter of tax avoidance to the

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extent deemed appropriate by the Congress. Hence, denial of the application by the Board could be thought of as going beyond whatever tax legislation might be enacted.

Governor Mills stated that he had sympathy with the point raised by Mr. Furth. However, he questioned whether the Board would have authority to deny the application simply on the ground of suspicion, even though that suspicion might be well founded, that the move was for tax avoidance purposes. Therefore, he would go along with the recommendation for approval.

Governor Robertson said that he would not want to approve the application until the views of the State and Treasury Departments had been obtained. In saying this, he did not mean to preclude himself from taking a final position one way or the other, no matter what the views of those Departments were, but he felt that the Board should have the benefit of their views. He doubted that Chemical Overseas had the right to change its headquarters without the Board's consent.

Mr. Hexter pointed out that in 1960, when the Board was considering the application of First National Bank of Boston for permission to organize Boston Overseas Financial Corporation, and through the latter to invest in a Panamanian subsidiary, an inquiry sent to the Comptroller of the Currency brought a reply that the Office of the Comptroller saw no reason why the application should not be approved. A short time later, however, a letter dated September 30, 1960, was received from Mr. Jay W. Glasmann, Assistant to the Secretary of the Treasury, indicating that, since the

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Comptroller's interest in such matters was limited to banking factors, it seemed appropriate for the Treasury to call attention to the tax considerations that might be involved. The letter stated that the increasing use of foreign holding companies in recent years had been a matter of concern to the Treasury, although there was no legal basis for objecting to them. Mr. Hexter commented that if a letter were written to the Treasury Department in regard to the application now before the Board, presumably the reply would be in somewhat the same terms.

There followed further discussion as to whether legislation enacted, or under consideration, to deter tax avoidance should be a factor in Board decisions relating to the activities of Edge Act corporations. As to the advisability of asking the Treasury's views on the current application, it was suggested that expressions from the State and Treasury Departments might serve to complete the file on the case. However, in response to a question from Governor Balderston as to whether any embarrassment seemed likely to result if opinions were requested from those Departments, Mr. Hexter replied in the affirmative as far as the Treasury was concerned. He had doubt, he said, not only as to whether the Board, in passing on a matter of this sort, should take into consideration legislative proposals but even whether the Board should consider existing tax law. If the present tax laws permitted minimizing taxes by taking certain steps, that was under the control of Congress. In his view, consultation with the Treasury Department would

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be an indication of a feeling on the part of the Board that tax considerations were a proper element in arriving at the Board's decision, which seemed to him questionable. Therefore, unless the Board was satisfied that such considerations should be a factor in the decision, he believed that it would be better not to ask the Treasury's views. An inquiry of the State Department was another matter; the Board customarily made such inquiries to determine how various proposals to extend American banking interests abroad would relate to foreign policy.

There was also extended comment on the question whether or not the Board had authority to approve or deny the change in location of the head office of Chemical Overseas. The Board, it was noted, did not make any inquiries as to the intended location at the time of the original application, but did make inquiries on other points. Some staff members had assumed that since Chemical Overseas was incorporated under the laws of Panama, its head office would be located there; however, it is common practice for many corporations to incorporate in jurisdictions other than the location of their headquarters.

The position taken by the New York Bank to the effect that the Board's approval was not required was reviewed, as contrasted with the requirement imposed by the Board in its original consent that Chemical Overseas could not, except with the Board's approval, engage in any operation in Panama or elsewhere that could not be engaged in by Chemical International itself. It was recognized that both the position taken by

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the New York Bank's counsel and the theory suggested by the Board's staff had weaknesses as well as merits. However, it was suggested that it did not seem reasonable to hold that the Board's approval must be obtained for establishing a branch because that requirement was specifically stated, and then take the position that the Board's consent need not be obtained for a change in headquarters location simply because that requirement had not been specified. The point was also made that approval of the change of location would provide an opportunity to specify that any contemplated future move should be brought to the Board's attention.

During the foregoing discussion Governor Shepardson indicated that on the basis of the information at hand, he would be inclined to approve the current application. He added a comment to the effect that he did not believe prospective legislation, which might or might not be enacted, should influence the decision. Governor King expressed a similar opinion, stating that he would be willing to approve the application if, in the opinion of the Legal Division, such approval was necessary.

Comments by Governor Balderston were to the same general effect.

Governor Robertson then stated that he regarded the point made earlier by Mr. Hexter as well taken. Therefore, he would withdraw his suggestion that the views of the Treasury be requested. However, he did not feel that the same argument applied insofar as the State Department was concerned, and he continued to believe that it would be desirable to have the Legal Division study further the need for Board approval of the removal of the head office.

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At the conclusion of the discussion, the Legal Division was requested to explore further the question of the Board's authority in respect to the relocation of the head office of Chemical Overseas, the matter then to be considered further by the Board. It was also agreed that in the meantime an inquiry would be made of the State Department as to whether it saw any reason why the move should not be approved, but that no inquiry would be sent to the Treasury Department.

Messrs. Furth and Poundstone then withdrew from the meeting.

Report on competitive factors (San Francisco-San Rafael, California). There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of Bank of San Rafael and First National Bank in San Rafael, both of San Rafael, California, with and into Crocker-Anglo National Bank, San Francisco, California.

Governor Mills stated that in his view the issue in this case was whether the elimination of competition afforded by the two closely related independent banks was the proper criterion to be considered or whether the proper criterion was that the independent banks were operating in an area where all of their competition came from substantial branch banking organizations. He suggested that there was a similarity between this case and the recent merger of Wells Fargo Bank American Trust Company of San Francisco with Pajaro Valley Bank, Watsonville, California, which was approved by the Board with one dissent. In the San Rafael case, as

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in the other, denial of the application would compel an independent bank against its wishes to retain its independent status, and to continue in competition with much larger banking organizations. In line with this reasoning, Governor Mills suggested for consideration a rephrasing of the conclusion of the report.

There followed a discussion of the competitive situation in the San Rafael area, during which reference also was made to the Watsonville case to which Governor Mills had referred. It was suggested that at least one distinction could be drawn; namely, that Crocker-Anglo already had a branch in San Rafael whereas Wells Fargo was not represented in Watsonville prior to its merger with the Pajaro Valley Bank. Thus, with Crocker-Anglo already represented in the San Rafael area, the effect of the elimination of the two independent banks proposing to merge into Crocker would be a reduction of competition, except to the extent that increased services might be offered by Crocker following the merger. On this point, the fact that the two independent banks apparently had competed quite successfully with other organizations, including the existing branch of Crocker, suggested that their services had been found reasonably satisfactory. While denial of the current application would compel the two independent banks to remain in business, apparently against their wishes, it was pointed out that this was almost always the case when proposed mergers were denied.

In the light of this discussion, Governor King made certain suggestions for changes in the conclusion of the report. There

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being agreement with these suggestions, the report was approved for transmission to the Comptroller of the Currency in a form in which the conclusion read as follows:

The San Rafael branch of Crocker, the only office of this bank in the service area of State Bank and National Bank, has demonstrated its ability to compete effectively in the San Rafael area, acquiring almost \$4 million IPC deposits and \$7 million loans since its establishment in 1958. The proposed merger would eliminate the only two independent banks in the service area, and existing and potential competition between Bank of San Rafael and First National Bank in San Rafael on the one hand, and Crocker-Anglo National Bank on the other.

Request by Continental Illinois for hearing (Item No. 1). There had been circulated a draft of reply to a recent letter from Continental Illinois National Bank and Trust Company of Chicago, Chicago, Illinois, regarding that bank's proposed merger with City National Bank and Trust Company of Chicago. The letter from the bank raised the question of a hearing being granted on the matter. A second letter subsequently was received from the bank enclosing a letter sent to the Comptroller of the Currency, and it was suggested that the proposed reply might serve to answer both of the incoming letters.

During discussion, it was agreed that the proposed reply should be revised in accordance with a suggestion made by Governor Mills when the file was in circulation. The letter was then approved unanimously in the form attached as Item No. 1.

Messrs. Hexter, Hooff, and Leavitt then withdrew from the meeting.

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Redemption, verification, and destruction of unfit currency

(Item No. 2). A memorandum from the Division of Bank Operations dated May 3, 1961, had been distributed in regard to a review of Reserve Bank procedures for verifying and destroying unfit United States currency. For some time prior to 1960 the Board and the Reserve Banks had expressed concern over differing Reserve Bank procedures. Subsequently, as a result of discussions between Treasury and System representatives, a revised procedure, acceptable to the Treasury and to be uniformly followed by the Banks, was developed. The revised procedure became effective July 1, 1960, after having been accepted by the Conference of Presidents, the Board of Governors, and the Treasury Department.

In a letter dated June 28, 1960, the Board outlined to the Reserve Banks the changes in the Treasury regulation, particularly with respect to uniform observation, and indicated that the Board would request comments on the Banks' experience under the revised procedures after they had been in effect for about six months. This was done in the Board's letter of January 25, 1961.

The replies received indicated, in general, that the Reserve Banks found the new procedures to be an improvement, although certain unfavorable comments were made by three Banks on certain aspects of the procedures. However, the same objections had been considered at some length when the new procedures were adopted, and it was decided at that time that uniformity and greater over-all security would best be obtained

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by adopting the revised procedures. Therefore, it did not appear desirable to amend the procedures along the lines of the unfavorable comments expressed by some of the Banks, although it was expected that later this year the Reserve Banks would be asked for any further comments on their experience. A draft of letter expressing this position to the Federal Reserve Banks was attached to the memorandum.

Following a brief discussion, the letter was approved unanimously.

A copy is attached as Item No. 2.

System Committee on Eligible Paper (Item No. 3). At the Board meeting on May 4, 1961, there was a preliminary discussion of a letter dated April 21, 1961, from Mr. Bryan, Chairman of the Presidents' Conference, responding to a letter written to him by the Board on April 5, 1961, in regard to the proposal of the Conference of Presidents that a System staff committee undertake a basic review of discount eligibility requirements. At the conclusion of the discussion it was agreed that the matter would be considered further after copies of President Bryan's letter and other related material had been distributed to the members of the Board, which had subsequently been done. A draft of a letter informing the Federal Reserve Bank Presidents of the establishment of the committee had been prepared, based upon a conversation Governor Balderston had had with President Bryan the preceding day. At this meeting Mr. Sherman read the draft letter and indicated that President Bryan had expressed concurrence with it in a telephone

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conversation immediately preceding the meeting. The draft reply would state, among other things, that the Board had designated Messrs. Hackley, Farrell, Solomon, and Holland as members of the committee and that it concurred in the designation of Mr. Scanlon, First Vice President of the Federal Reserve Bank of Chicago, as Chairman.

Governor Mills commented that the Board apparently had committed itself at this stage with regard to participation in the study along the lines indicated in the proposed letter. Nevertheless, he was concerned about some aspects of the matter, particularly because Regulation A is the Board's responsibility. His own thinking would have been to designate some junior person from the Board's staff as liaison and advise the Presidents' Conference that the Board would welcome the report of the committee, along with any guidance that such report would give the Board with respect to Regulation A. As things now stood, however, it appeared that the only course open was to proceed along the lines indicated in the proposed letter.

At Governor Balderston's request, the Secretary then read the Board's letter to Chairman Bryan of April 5, 1961. That letter stated in part that the Board concurred in the conclusion of the Presidents that a basic review of eligibility requirements would be desirable; that it would seem appropriate for the committee to include representatives of the staffs of both the Federal Reserve Banks and the Board; and that the Board would consult with the Chairman of the Presidents' Conference as to the designation of Board membership on the committee.

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It was with the April 5 letter in mind, Governor Balderston said, that he had discussed the matter with Chairman Bryan yesterday. The proposed letter to all Reserve Bank Presidents, he noted, would reflect the view that the creation of a System committee should be announced by the Board, that Board representation should be equal to that of the Reserve Banks, and that the chairman of the committee should be selected by the Board, with the concurrence of the Chairman of the Conference of Presidents. On these points Mr. Bryan had agreed. As to the question of participation by the Board's staff in the work of the committee, Governor Balderston pointed out that one phase of the study would relate to questions of discount window administration, primarily a responsibility of the Reserve Banks. However, the study might also lead to suggestions for interpretations or amendments of Regulation A, and that would be the Board's responsibility.

In further discussion of Board representation on the committee, question was raised as to whether the Board's work might suffer because of the time required for this work. The thought was expressed that subordinate staff members might be called upon for research and other assistance. However, it appeared to be the general feeling that the Board's representatives on the committee should be of the highest order of competence in order that the results of the study might be of the most value to the Board.

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There was also discussion of the question whether the Board's representatives might feel any conflict of responsibility in serving on the committee. Their views, it was brought out, might possibly be at variance with those of the Reserve Bank representatives in some respects, and subsequently they would be in the position of advising the Board on the same subjects. The suggestion was offered that such a possibility might be avoided by having non-voting observers from the Board on the committee, along the lines followed in the case of subcommittees of the Presidents' Conference. However, the view was expressed that it would be desirable for the Board to have the best recommendations possible as a result of the study. Although Board representatives on the committee would subsequently have to advise the Board on any committee recommendations falling within the Board's purview, nevertheless the decisions would ultimately be made by the Board itself.

After further discussion, the letter to the Reserve Bank Presidents was approved, subject to certain changes in wording that had been suggested at this meeting. A copy of the letter sent pursuant to this action is attached as Item No. 3.

The meeting then adjourned.

Secretary's Notes: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson approved on behalf of the Board on May 9 and 10, 1961, respectively, the following actions relating to the Board's staff:

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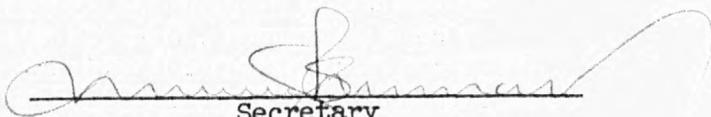
Extension of leave without pay

Paul W. Kuznets, Economist, Division of Research and Statistics, extension of leave from July 1, 1961, through September 5, 1961.

Acceptance of resignation

Margaret M. Tunstall, Recording Clerk, Division of Examinations, effective May 19, 1961.

Governor Shepardson also approved today on behalf of the Board the recommendation contained in a memorandum from the Division of Research and Statistics dated May 4, 1961, that Professor R. S. Sayers, London School of Economics and Political Science, be appointed as Consultant on a temporary contractual basis with compensation at the rate of \$50 per day, effective until December 31, 1961, with the understanding that transportation and per diem for time spent in travel status would be paid in accordance with the Board's travel regulations and that he would be regarded as in a travel status from the point within the continental United States from which he comes to Washington and to the point of his next stop in the United States.



Secretary

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

Item No. 1
5/10/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



May 10, 1961.

Mr. Donald M. Graham,
Vice Chairman of the Board,
Continental Illinois National Bank
and Trust Company of Chicago,
Chicago 90, Illinois.

Dear Mr. Graham:

This is to acknowledge your letters of April 14 and May 2, 1961, submitting certain additional information concerning the proposed merger of City National Bank and Trust Company of Chicago into Continental Illinois National Bank and Trust Company of Chicago, Chicago, Illinois. You requested that the additional information be considered and that you be afforded an opportunity for a hearing before the Board of Governors on this proposed merger.

In instances such as this, where the continuing bank is to be a nationally chartered institution, prior written consent of the Comptroller of the Currency must be obtained before the merger can be consummated. The responsibility of the Board is limited in such instances to reporting, upon request, to the Comptroller of the Currency on the competitive factors involved in the proposed merger. The Comptroller, on January 25, 1961, requested such a report, and on February 27, 1961, the Board forwarded its report on the competitive factors only to the Comptroller of the Currency.

The information which you submitted in your recent letters has been carefully considered by the Board. However, in view of the statutory character of its responsibility in this kind of proceeding, it is the Board's opinion that a hearing before the Board regarding the pending merger application would serve no useful purpose.

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
5/10/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

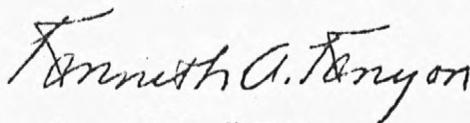
May 11, 1961.

Dear Sir:

The Board has reviewed the replies to its letter of January 25, 1961, requesting the comments of the Federal Reserve Banks on the revised procedures for the redemption, verification, and destruction of unfit United States currency.

These replies do not present any objections to the revised procedures that had not been considered prior to the adoption of the revised Treasury regulation that became effective July 1, 1960. Under the circumstances, the Board does not feel that it is desirable to propose amendments to the uniform procedures now in effect. However, later in the year, the Board will request further comments on the experience of the Reserve Banks under the revised procedures.

Very truly yours,



Kenneth A. Kenyon,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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

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Item No. 3
5/10/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 10, 1961.



Dear Sir:

This refers to Mr. Bryan's letter of April 21, 1961, with respect to the proposed System Committee on Eligible Paper. As indicated in its letter of April 5, the Board concurs in the suggestion of the Conference of Presidents that a basic review of eligibility requirements be made by a System staff committee. It believes that this could best be undertaken by a committee composed of four members appointed by the Chairman of the Conference of Presidents and four members appointed by the Board of Governors.

With respect to the membership, Chairman Bryan has proposed the following Bank personnel for membership on such a committee:

Harold A. Bilby, Federal Reserve Bank of New York
Robert S. Einzig, Federal Reserve Bank of San Francisco
C. J. Scanlon, Federal Reserve Bank of Chicago
Harry A. Shuford, Federal Reserve Bank of Dallas

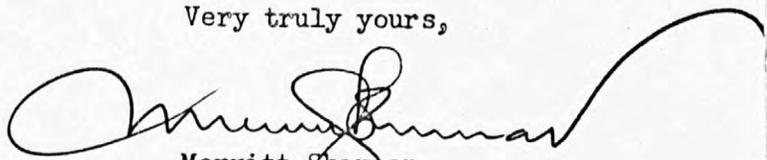
The Board has designated the following to serve on the Committee:

Howard H. Hackley
Robert C. Holland
John R. Farrell
Frederic Solomon

The Board, with the concurrence of Chairman Bryan, has appointed Mr. Scanlon as Chairman of the Committee.

The Board also agrees with the suggestion in Mr. Bryan's letter of April 21 that arrangements for a meeting of discount officers of the Federal Reserve Banks preferably should await the development of a preliminary outline of the study to be made by the System Committee on Eligible Paper.

Very truly yours,


Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL
FEDERAL RESERVE BANKS

FRASER
[unclear]