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Minutes for October 23, 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

RM

Gov. Mills

[Signature]

Gov. Robertson

[Signature]

Gov. Balderston

[Signature]

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Gov. Mitchell

[Signature]

Minutes of the Board of Governors of the Federal Reserve System

on Monday, October 23, 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. Mitchell

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Landry, Assistant to the Secretary
Mr. Morgan, Editorial Specialist, Board
Members' Offices

Messrs. Furth, Sammons, Katz, Irvine, Wood,
Dahl, Maroni, and Reynolds, and Miss
Logue of the Division of International
Finance

Messrs. Noyes, Garfield, Koch, Brill, Williams,
Dembitz, Eckert, Solomon, Manookian, Peret,
Smith, Wernick, Wood, and Yager of the
Division of Research and Statistics

Economic review. Members of the Divisions of International
Finance and Research and Statistics presented a review of economic and
financial developments in the United States and abroad.

At the conclusion of this presentation all members of the staff
except Messrs. Sherman, Kenyon, Fauver, and Landry withdrew and the
following entered the room:

Mr. Hackley, General Counsel
Mr. Chase, Assistant General Counsel
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Benner, Assistant Director, Division of
Examinations

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Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, and San Francisco on October 19, 1961, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Items circulated or distributed to the Board. The following items, which had been circulated or distributed to the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to The First State Bank of Larned, Larned, Kansas, granting its request for permission to exercise fiduciary powers.	1
Letter to Morgan Guaranty International Banking Corporation, New York, New York, granting the Board's consent to the purchase of shares of Banque Nationale pour le Developpement Economique, Rabat, Morocco.	2

Question under section 32 of the Banking Act of 1933 (Item No. 3).

Copies had been distributed of a draft of letter to American Security and Trust Company, Washington, D. C., regarding an inquiry from the bank as to whether Mr. Robert L. Garner would be prohibited by section 32 of the Banking Act of 1933 from serving at the same time as a director of the bank and as an officer and director of The Japan Fund, Inc. The draft letter would express the understanding that The Japan Fund, Inc., would be a closed end investment company authorized by its articles of incorporation to issue 5 million shares of common stock, of which the initial

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issuance would be 2 million shares; that the 2 million shares would be sold to underwriters in a single transaction; that the underwriting and distribution of the shares to the public was expected to be completed in a period not to extend beyond two or three weeks; and that the Fund did not intend to make a continuous offering of additional shares or frequent issues of additional shares, although it might issue additional shares up to the amount authorized by its charter by means of single transactions similar to the original issue. The letter would state that on the basis of this understanding there appeared to be no reason to distinguish this case from that described in the Federal Reserve Bulletin for 1961 at page 156 in which the Board found that section 32 would not be applicable because it appeared that the company would only be issuing its stock "for a period originally required for corporate organization." The letter would conclude with the comment that in the earlier case the Board had noted that if the company should subsequently issue additional shares frequently and in substantial amounts relative to the size of its capital structure, it would be necessary to reconsider the matter.

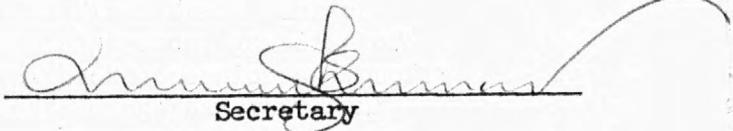
After comments by Messrs. Hackley and Chase, Governor Mills said that he would vote to approve the letter but that he regarded the concluding statement as important, since he believed the situation would bear watching. The letter to American Security and Trust Company was then approved unanimously. A copy is attached as Item No. 3.

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Continental Bank and Trust Company. Governor Mills inquired as to the possible bearing of the recent death of President Cosgriff on the status of the litigation involving The Continental Bank and Trust Company, Salt Lake City, Utah. Reply was made to the effect that the appellate procedure was moving along in the manner originally contemplated. It appeared that a decision might be expected from the United States Court of Appeals by early December 1961; if so, and if the Court of Appeals upheld the lower court, the show cause hearing in this matter could be commenced in January.

The meeting then adjourned.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM Item No. 1
WASHINGTON 25, D. C. 10/23/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 23, 1961

Board of Directors,
The First State Bank of Larned,
Larned, Kansas.

Gentlemen:

This refers to your request for permission, under applicable provisions of your condition of membership numbered 1, to act in certain fiduciary capacities.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System grants permission to The First State Bank of Larned to act as executor, administrator, guardian of estates, and trustee under the bank's pension and profit sharing trust, with the understanding that your bank will not accept fiduciary appointments of other kinds without first obtaining the permission of the Board.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



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

Item No. 2
10/23/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 23, 1961.

Morgan Guaranty International Banking Corporation,
23 Wall Street,
New York 8, New York.

Gentlemen:

In accordance with the request and on the basis of the information furnished in your letter of September 13, 1961, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants consent for Morgan Guaranty International Banking Corporation to purchase and hold 10,000 ordinary shares, par value 50 Dirhams each, of Banque Nationale pour le Developpement Economique, Rabat, Morocco, at a cost of approximately US\$75,000, subject to a per share call of 12.5 Dirhams or approximately US\$25,000, provided such stock is acquired within one year from the date of this letter. The Board also grants consent to the payment of the per share call of 12.5 Dirhams upon call.

The Board's consent is granted upon condition that Morgan Guaranty International Banking Corporation shall dispose of its holdings of stock in the Moroccan bank, as promptly as practicable, in the event that the Moroccan bank 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) otherwise conduct its operations in a manner which, in the judgment of the Board of Governors, causes the continued holding of its stock by Morgan Guaranty International Banking Corporation to be inappropriate under the provisions of Section 25(a) of the Federal Reserve Act or regulations thereunder.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 3
10/23/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 23, 1961.

Mr. Robert C. Baker, President
American Security and Trust Company,
Washington 13, D.C.

Dear Mr. Baker:

Reference is made to the conversation which you and Mr. Robert L. Garner had on October 18, 1961 with Governor Balderston and Mr. Howard Hackley, and your letter of October 18 to Mr. Hackley, enclosing a preliminary registration statement, articles of incorporation, etc. of The Japan Fund, Inc.

You asked to be advised whether Mr. Garner would be prohibited by section 32 of the Banking Act of 1933 (12 U.S.C. sec. 78) from serving at the same time as a director of the American Security and Trust Company and as an officer and director of The Japan Fund, Inc.

It is understood that The Japan Fund, Inc. will be a closed end investment company, authorized by its articles of incorporation to issue 5 million shares of common stock, of which 2 million shares will be issued initially; that the 2 million shares will be sold to underwriters in a single transaction; that the underwriting and distribution of the shares to the public will be completed within a period which is not expected to extend beyond two or three weeks; and that the Fund does not intend to make a continuous offering of additional shares, or frequent issues of additional shares, although it may issue additional shares, up to the amount authorized by its charter, by means of single transactions similar to the original issue.

On the basis of the above understanding, there appears to be no basis for distinguishing this case from that described in the Federal Reserve Bulletin for 1961 at page 156, in which the Board found that section 32 would not be applicable because it appeared that the company would only be issuing its stock "for a period ordinarily required for corporate organization."

Mr. Robert C. Baker

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In connection with that case, the Board stated, however, that if the company should subsequently issue additional shares frequently and in substantial amounts relative to the size of the company's capital structure, it would be necessary for the Board to reconsider the matter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.