

The attached minutes of the meeting of the Board of Governors of the Federal Reserve System on December 4, 1961, which you have previously initialed, have been amended at the request of Governor Balderston to revise his comments appearing near the end of page 18.

If you approve these minutes as amended, please initial below.

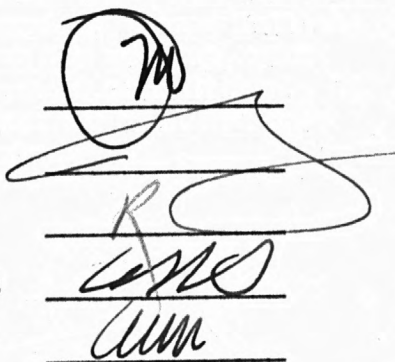
Chairman Martin

Governor Mills

Governor Robertson

Governor Shepardson

Governor King

Handwritten initials and signatures on lines. The first line has a circled 'M'. The second line has a signature. The third line has a signature. The fourth line has a signature. The fifth line has a signature.

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Minutes for December 4, 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

Gov. Mills

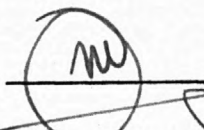
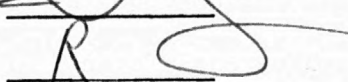
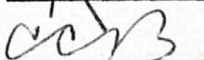
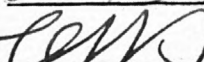


Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

Gov. Mitchell

Minutes of the Board of Governors of the Federal Reserve System on  
Monday, December 4, 1961. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Young, Adviser to the Board and Director,  
Division of International Finance  
Mr. Molony, Assistant to the Board  
Mr. Fauver, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Noyes, Director, Division of Research  
and Statistics  
Mr. Hexter, Assistant General Counsel  
Mr. Koch, Adviser, Division of Research and  
Statistics  
Mr. Furth, Adviser, Division of International  
Finance  
Mr. Hersey, Adviser, Division of International  
Finance  
Mr. Sammons, Adviser, Division of International  
Finance  
Mr. Katz, Associate Adviser, Division of  
International Finance

System operations in foreign currencies. There had been distributed to the Board and the Federal Open Market Committee a set of staff documents relating to possible Federal Reserve System operations in foreign currencies, including revisions distributed by the Committee Secretary under date of November 29, 1961. There had likewise been distributed copies of letters from Presidents Wayne, Swan, and Fulton commenting on the matter, which had been the subject of discussion at

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meetings of the Open Market Committee on September 12 and November 14, 1961. The purpose of the discussion at this meeting was to permit the members of the Board to consider the subject further in advance of tomorrow's meeting of the Open Market Committee.

At the request of the Chairman, Mr. Young made a statement in which he referred to the principal points mentioned in the letters from Messrs. Wayne, Swan, and Fulton. The Swan letter, he noted, had expressed some concern about whether the staff proposal contemplated continual intervention in the foreign exchange markets. Actually, Mr. Young said, this was not the intent. The proposal had endeavored to provide for a flexibility that would enable the desk operating in foreign currencies to be in continuous contact with, and have a continuous feel, of the market. However, the proposal incorporated various protections in the draft instructions and guidelines. It had been stated, for example, that there should be no transactions at other than market rates. The idea was not to make a market or to move rates in any particular direction, although there would be some occasions when the Open Market Committee, in the light of the existing situation, might instruct the desk to operate with a view to influencing rates.

In his letter, Mr. Swan had also expressed some reservations about forward operations, and he (Mr. Young) would agree that this kind of operation should be less frequent than spot operations. Mr. Swan also



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felt that no matter what arrangement was finally worked out, there should be an agreement in writing with the Treasury as to the relative areas of responsibility of the System and the Treasury. This, Mr. Young said, was certainly a point to which no one could object. Mr. Swan had raised a question concerning the figure of \$500 million suggested as a maximum for System holdings of foreign currencies, initially at least, noting that this figure, when distributed among several currencies, might be on the low side. Mr. Swan also had reservations about the need for establishment of a subcommittee of the Open Market Committee to supervise foreign currency operations, although he did see some reason for close supervision of the activity, at least in its experimental or initial stages. For this purpose he would suggest full reports to the Committee, including daily and weekly reports. All of these things were worthy of consideration, Mr. Young said. The subcommittee could be thought of, if one wanted to, as not necessarily lasting forever, but as being the instrument through which the initial operations were conducted. As experience was gained and the Open Market Committee became more informed on technical aspects of the operation, the full Committee could take over from the subcommittee.

Turning to Mr. Wayne's letter, Mr. Young commented that it seemed to reflect some degree of misunderstanding about the manner in which responsibility for foreign financial policy is placed in the Government. Mr. Wayne appeared to assume it was placed squarely on the shoulders of the Treasury, and that whatever the Federal Reserve did in this area

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would make it subservient to the Treasury. Accordingly, Mr. Wayne suggested three alternatives in the handling of foreign currency operations. The first would be for the Treasury to assume full responsibility through its Stabilization Fund and obtain from the Congress additional resources for the Fund. A second alternative would be for the Federal Reserve to function as banker, so to speak, for the Stabilization Fund, buying currencies from the Fund when the Fund was in need of resources for operations and selling currencies back to the Fund whenever the Fund needed them. A third alternative would be for the System to engage in foreign currency operations, but with the Treasury responsible for the strategy of the whole undertaking and the System responsible principally for technical day-to-day operations.

Actually, Mr. Young said, there had been quite a change since Bretton Woods in the locus of responsibility within the Government for foreign financial policy. By statute, it was now centered in the National Advisory Council on International Monetary and Financial Problems, with membership including the Chairman of the Board of Governors along with other representatives of the financial and related branches of the Government. If problems of coordination were to arise between the Federal Reserve and the Treasury in the conduct of foreign currency operations, those could be taken up with the National Advisory Council. The Council, however, is an advisory and not an operating body, a place where the agencies of Government interested in foreign financial operations

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make reports to one another and discuss together their various problems in the light of a general approach and general policy. It did not seem to Mr. Young that this process would create any great problem for the System. The System would be obliged to keep the Council informed of its operations through reports that would be submitted from time to time, but this would be mainly a reporting and discussion matter.

In each of the letters, Mr. Young said, some reservations were indicated with regard to the legal authority of the Federal Reserve to engage in foreign currency operations.

One of the staff documents that had been distributed was a memorandum from Mr. Hackley, as General Counsel of the Open Market Committee, concerning the legal aspects of the proposal. Accordingly, the Chairman turned at this point to Mr. Hackley, who said that since so much emphasis had been placed on the question of legal authority he would like to make his own position clear. (As indicated in his memorandum, he was not commenting at all on any of the policy considerations involved in the present proposal.) There was, of course, no provision in the law specifically authorizing Federal Reserve Banks to deal in or purchase foreign currencies or to engage in foreign currency operations as such. On the other hand, the Banks were authorized to make open market purchases and sales of cable transfers, and through that means the Banks might obtain credit with a foreign central bank payable in foreign currencies. Also, section 14(e) of the Federal Reserve Act provided authority for the opening of foreign accounts, with the consent of the Board and under

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regulations of the Board, in connection with the establishment of agencies and the appointment of correspondents abroad by Federal Reserve Banks. Here, Mr. Hackley said, there had been considerable confusion and misunderstanding. The section authorized the Federal Reserve Banks to open accounts, appoint correspondents, and establish agencies abroad "wheresoever it may be deemed best for the purpose of purchasing, selling, and collecting bills of exchange." The legal doubt had arisen from the fact that the provision on its face might seem to limit the opening of accounts to occasions in which the account was to be used only for the purchasing, selling, and collecting of bills of exchange. Some argument had been made in support of a broader interpretation on the basis that there was no comma at one particular point in the section. However, he would not put much weight on that argument; there were other considerations that seemed convincing to him in support of the authority. First, it could be argued that the "wheresoever" clause was not a mandatory prohibition or restriction on the use of accounts, limiting them to the purchasing and selling of bills of exchange. This was only an indication of purpose--a contemplation that the agency, correspondent, or account would be at a place where it might be deemed best at some time to deal in foreign bills of exchange. The language did not expressly limit the opening of accounts to that purpose. Second, the last sentence of that same paragraph provides that whenever a Federal Reserve Bank opens an account, any other Reserve Bank may conduct operations through the account opened by the initial Federal Reserve Bank,



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with the consent of the Board, in order to facilitate any of the transactions authorized by section 14. One of these was the purchase or sale of cable transfers, an open market transaction. Obviously, it would be illogical to permit other Reserve Banks to use a foreign account for the purpose of facilitating any of the transactions authorized by section 14, and yet not permit the Federal Reserve Bank that opened the account to do likewise.

Mr. Hackley then referred to two letters written by the Board to the Federal Reserve Bank of New York in 1933 and 1934 which suggested that the Board took the position that the Federal Reserve Banks could not open accounts abroad except for the purpose of purchasing and selling bills of exchange. Actually, it was not clear that the letters purported to take a legal position; they may have reflected a position of policy. Even assuming, however, that they did reflect a legal position, what they actually said was that accounts might be opened only for the purpose of facilitating the purchase, sale, and collection of bills of exchange and the conduct of other open market transactions of the kind specified in section 14. This tied in to the construction that Mr. Hackley read into the last sentence of section 14(e), namely, that the Federal Reserve Banks might conduct any of the transactions authorized by section 14, including the purchase and sale of cable transfers, the medium through which the Federal Reserve Banks would acquire foreign currencies. On this point, Mr. Hackley said, Counsel for the Federal Reserve Bank of New York agreed with his view. Also, although this matter had not been considered by the



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Legal Division in detail until this occasion, it was considered informally some years ago and Mr. Vest, formerly General Counsel of the Board, reached the same conclusion.

At the same time, Mr. Hackley said, this was not an open-and-shut question. Arguments could be made that literally the "wheresoever" clause should be construed as a prohibition. One thing that had thrown doubt on the matter was a statement by Senator Glass in 1932 criticizing the Federal Reserve Bank of New York for engaging in certain stabilization operations to bolster the credit of foreign countries. However, Mr. Hackley said, he would not give too much legal weight to that criticism. True, it was in the next year or two that the Board wrote its letter to the New York Bank. On the other hand, while the Board's letters may have been influenced by Senator Glass's criticism, those letters did not purport to limit the opening of foreign accounts solely to acquiring bills.

In summary, Mr. Hackley said he had no reservations as to the legal authority of the Federal Reserve Banks to open accounts for the purposes contemplated by the proposal relating to operations in foreign currencies. However, he recognized that the operations could be the subject of criticism and that the possibility of criticism on legal grounds might be enhanced if the operations were criticized on policy grounds.

Governor Mitchell then raised the question whether, if the Federal Reserve was attempting to do something that was truly significant

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and there was some question whether or not it had the authority to engage in foreign currency operations, it would not be desirable from the standpoint of relations with the Congress and the public generally to go to the Congress, express the view that this was an issue on which some action should be taken, and suggest the nature of the proposed action. He did not find in the staff documents an indication as to the modus operandi that would be recommended in those circumstances. It might be, he thought, that more simple and direct methods of operation could be suggested than was contemplated by the staff documents. What he had in mind, for example, was to ask the Congress whether it desired to have the activity administered by the Treasury or by the Federal Reserve, and whether it wanted foreign exchange operations simply to deal with speculative surges or also to deal with seasonal and cyclical movements.

In reply, Mr. Young said that the staff had not tried thus far to prepare a legislative draft, although there was no reason why that could not be done. However, this was not a situation where there was a clean piece of paper on which to write. There were already in existence, for example, the Gold Reserve Act, the Bretton Woods Agreements, and the International Monetary Fund. At the moment, new arrangements were under negotiation for supplementing the resources of the Monetary Fund. However, one of the problems in this regard was that a borrowing from the Fund, even when the supplementary resources became available, would take some time to arrange. There was need for some facility to deal with market movements that could develop very quickly.

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After further discussion along these lines, Governor Mitchell said he gathered that the staff could not envisage any significantly different way of operating than was proposed, even though the System went to Congress and asked the Congress to rewrite the law in just the way that the System would like to have the law stated.

Mr. Young replied that it would be possible to go to Congress and request a clarification of the authority for System operations. Another question would be whether the operations should be conducted through the established mechanism within the Federal Reserve System. This was a matter of judgment, and the staff could draft the proposal any way that its principals might wish. The instruction that had been recommended in the staff documents for issuance by the Open Market Committee to the New York Bank could be incorporated in the statutes, or at least the essential elements of it. However, the guidelines probably would remain substantially the same as they had been drafted.

Chairman Martin commented that the staff had rendered a real service in putting the documentation together. Also, Mr. Hackley had performed a real service in rendering a legal opinion that was as clear as that type of opinion could be made. If this country should face a speculative crisis in the immediate future, the System had been provided with a modus operandi that would afford a basis for foreign currency operations, assuming the System wanted to conduct them. From the public relations standpoint, there would seem to be no question: it would be better to

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have the matter cleared with the Congress. He (Chairman Martin) had talked informally with the Chairmen of the Banking and Currency Committees of the House and Senate. Understandably, however, they were not sufficiently conversant with the intricacies of the subject to take a definite position. Similarly, there was much yet to be done to improve the degree of understanding within the System itself. Nevertheless, the subject had now been explored sufficiently so that if there should be a grave crisis the Board and the Open Market Committee could decide on the merits whether they wanted to do something, and that represented a real advance.

The Open Market Committee, the Chairman said, should now try to determine whether it felt that a crisis would be eased by foreign currency operations, either through the Stabilization Fund or the Federal Reserve System. Personally, he felt that it was desirable to keep an open mind. The Under Secretary of the Treasury for Monetary Affairs had done some real pioneering in this field. There might be doubt as to whether the operations of the Stabilization Fund over the past several months had made a significant contribution, but at least those operations had made people aware of the problem. He would hope that the System could agree that this area was sufficiently important that there ought to be some mechanism within the Government for dealing with the problem. If it was agreed that the Stabilization Fund should be increased, the System should be willing to support the Treasury in

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seeking such an increase. If the Congress should decide that the Stabilization Fund should not be increased and that the Federal Reserve should undertake this activity, the System should be prepared to undertake it on some basis. That would seem to be a constructive approach for the System to follow.

The Chairman went on to say that there was a real question whether any System operations in foreign currencies should be turned over to a subcommittee or other small group. Personally, he would be willing to see the subcommittee arrangement eliminated, although operations by the full Committee no doubt would be cumbersome. Similarly, he had some sympathy with the comments made by Mr. Swan regarding the objectives and manner of conducting exchange operations, but he did not profess to be a technician in such operations.

In summary, the Chairman said, he felt that the System must be prepared to do something, and perhaps this would be more than just facing up to a speculative crisis. Perhaps the operations should be on a reasonably continuous basis. The nature of the Stabilization Fund operations had changed, he noted. The System should not bail out the Stabilization Fund, but the Fund was being used in a variety of ways that had never been contemplated. The Stabilization Fund meant a great many things to a great many people, and the problem ought to be recognized.

The Chairman noted that there were extreme positions in the thinking on this subject. For example, there was a group in New York



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in the foreign exchange community who thought that the Stabilization Fund operations had constituted a completely useless gesture. In his opinion, however, such views were out of date; this was a problem that had to be dealt with by somebody, and the System must be alert. It was necessary to come up with something constructive. At the same time, he would not want to see the System go into this type of operation unless as a System there was a conviction that this activity should be conducted. As he had said, he did not like particularly the idea of having a small group supervise the operation, although he thought that was the most effective way of operating. It could be said that that would be the most effective way of operating in the Government securities market. Nevertheless, if operations were conducted in that manner, he did not think it could be said that the Open Market Committee as such was conducting them.

The Chairman then turned to Governor Mills, who said he thought the points made by Mr. Swan were well taken and persuasive. The other side of the problem was that he sensed that the System may have already moved rather far along the path toward this type of participation. There had been repeated statements from the Treasury that the Federal Reserve System was operating or would operate in the foreign exchanges, so he did not know what indirect commitments or understandings there might already be with the Treasury. As to the operations themselves, he thought that the question was one of who was going to do the speculating. The

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operations would constitute a counter-speculation with all of the attendant risks. If the operations were not going to be held down to crisis situations, the temptation toward continuous operations would be endless and the plausible reasons for them would be equally endless. What he thought would happen was that the System would agree to embark on this course. Whether that would be to the long-term advantage of the System or whether the System would lose position vis-a-vis the Treasury, which he thought quite probable, would have to be seen from experience.

Governor Robertson said he agreed that the work done by the staff had put the System in a much better position to meet a crisis if that should be necessary. However, he was not convinced that, absent a crisis, the System should enter into this activity. He had prepared a memorandum that he proposed to use in commenting at the meeting of the Open Market Committee tomorrow. There might, of course, be additional arguments today that would cause him to want to change the memorandum in some respects.

Governor Shepardson expressed agreement with the view that in light of the changed situation in the world, there was probably a need to do something. On the manner of conducting operations, he noted the suggestion that a start might be made with a small subcommittee and that later, as more was learned about the conduct of these operations, they might be turned over to the full Open Market Committee. Although recognizing the difficulty of any large group actually operating an

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account of this kind, it seemed to him that if the Committee was to learn more about the subject, the logical approach would be for the Committee to supervise operations in the beginning. Later, after a better understanding was obtained, the operations might be turned over to a subcommittee as a matter of simplification. Another thing that concerned him was the extent to which the System might find itself using such operations to cover up or alleviate the necessity for fundamental changes in the balance-of-payments situation. There had been seasonal fluctuations since the beginning of time, and he wondered how much it would help to endeavor to take some compensating action for seasonal variations. He wondered whether such operations would serve merely to lessen the pressure for fundamental changes that might be necessary to adjust the whole balance-of-payments position. If they were used to counteract unjustifiable speculative swings that might occur, it seemed to him there was a real purpose to be accomplished, but if they were used to mitigate the pressure for fundamental changes, that would be unfortunate. From the standpoint of actual operations, he could see that there might be some argument for maintaining contact with the market, but he was not sure that there would have to be continuing operations to maintain such contact. If the System got into continuing operations, he was apprehensive that they might be used to lessen or mitigate the pressure that should be exerted to bring about fundamental changes.

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Governor King commented that in the event of a crisis he would not be inclined to question exactly how the rules were written. In a crisis someone must assume responsibility to do whatever should be done at the moment; the procedures could be worried about later. Thus, in the event of a crisis his general thoughts on the subject would be altered somewhat. As of today, however, he did not think the fundamentals of the matter were really so complicated: in essence, the operations would be intended to counter a certain amount of speculation. This could be a practical and intelligent approach to some situations, but of course the approach might backfire. The basic problem that he encountered in his thinking was the wisdom of allowing such an activity to be conducted with the System's checkbook. If the System embarked on this undertaking short of a crisis, he believed it might be the undoing of the System. In his opinion, the people who believed in the System and expressed that belief to their contemporaries might lose faith in the System if it embarked on this activity short of a crisis. Moreover, he did not think that a crisis was close at hand, and he would not want to undertake these operations under the guise of an approaching crisis. The System, he thought, could make a fundamental mistake by using in this manner the money for which it was responsible.

Someone, however, probably was going to have to undertake this activity, Governor King said, and he would support the proposal of asking the Congress. As he saw it, the key to the whole problem was to have the

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Congress sanction whatever procedure was adopted. In his own opinion, the preferable procedure would be for the Federal Reserve to support an enlargement of the resources of the Stabilization Fund. If the Treasury wanted and obtained such an enlargement, it would be more or less speculating with funds supplied to it by the Congress. The Treasury would then be in a better position to bear the consequences than the Federal Reserve System, which in his opinion was already bearing about all of the load it should carry. If the Congress decided to impose the responsibility on the Federal Reserve, then the responsibility would have been imposed as a direct one. The Federal Reserve would not seem to be wanting to pre-empt authority unto itself.

Governor Mitchell said that, looking well ahead, he agreed that this was unquestionably a function that some part of the Government would have to perform, whether it be the Federal Reserve or the Treasury. He thought the operations, if they were to be responsive to the need, should be directed at countering both speculative and seasonal fluctuations. These would be quite hazardous because one might make a mistake in assuming that natural forces were going to restore the situation and that the operations just constituted a bridging of the gap. If the operator should make a mistake and lose money, or simply postpone the date of adjustment, the operations no doubt would fall under considerable criticism. Therefore, he felt that there should be specific authorization from the Congress; in light of the review of the problem that was now



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taking place, the System ought to report to the proper parties in Congress its view that this was an area to which the attention of the Congress was needed. Also, there should be some recommendation that was considered best suited to the problem. The System should stand ready to move should an emergency arise, but if an emergency did not arise, Congressional sanction should be obtained.

Governor Balderston said he shared the feeling that the System was much better prepared for a crisis than it would have been without the staff documents. His analysis of the matter started, he said, with the thesis that the System was concerned that other nations should hold dollars in addition to gold. This country, on its side, had had a tradition of keeping its reserves entirely in gold, but there was an inconsistency in hoping that other nations would have faith enough in the United States to hold dollars if this country did not hold some of their currencies. There was the further question, then, of what agency should have control if foreign currency operations were entered into, and provided there was time to work the matter out logically. If one had asked him six months ago, he would have said the Treasury. If the \$500 million limit on foreign currency holdings that had been suggested was boosted to \$1 billion, which he would consider a more realistic figure, that amount was subject to some risk from devaluation. In such an event, there would be some advantage in not having the central bank responsible. There was another side of

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the question, however, as indicated by the relationship of open market operations to the activities of the trust accounts of the Treasury. The New York Bank acts as agent for the Treasury as well as the Open Market Committee; the activities conducted for the Treasury could at times be very significant in relation to the activities conducted for the Open Market Account. Carrying that thought into this new area, it seemed to him that quite conceivably the operation in foreign currencies might impinge on the fundamental monetary function of the central bank, namely, the provision of the right amount of reserves for the domestic economy. The central bank might be placed in a position where its fundamental job would be interfered with by Treasury operations over which it had no formal control. He was not sure whether 25 or 50 years from now the Federal Reserve would seem to have taken the right step.

After further comments the discussion of the subject concluded, with the understanding that the matter would be discussed further at the meeting of the Federal Open Market Committee tomorrow.

All of the members of the staff who had been present except Messrs. Sherman, Kenyon, Molony, Fauver, Hackley, Noyes, and Hexter then withdrew and Messrs. Hostrup and Leavitt, Assistant Directors, and Thompson, Review Examiner, Division of Examinations, entered the room along with Mr. Hooff, Assistant General Counsel, and Mr. Fuerth, Attorney.

Report on competitive factors (Worcester-Southbridge, Massachusetts).

There had been distributed a draft of report to the Federal Deposit

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Insurance Corporation on the competitive factors involved in the proposed consolidation of Guaranty Bank and Trust Company, Worcester, Massachusetts, and The Peoples National Bank of Southbridge, Southbridge, Massachusetts.

The report, in which the conclusion read as follows, was approved unanimously for transmittal to the Corporation:

There appears to be very little competition between Guaranty Bank and Trust Company and The Peoples National Bank of Southbridge. The proposed consolidation would probably intensify competition, particularly in the Southbridge region, without adversely affecting other banks in the area.

Report on competitive factors (Ridgewood-Allendale, New Jersey).

There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed consolidation of Citizens First National Bank and Trust Company of Ridgewood, Ridgewood, New Jersey, and The First National Bank of Allendale, Allendale, New Jersey.

The report, in which the conclusion read as follows, was approved unanimously for transmittal to the Comptroller:

The proposed consolidation would have little effect on competition in Ridgewood, one of the five communities served by the two banks. However, the consolidating banks operate the only commercial banking offices in the other four communities which are concentrated in a 12-square-mile area north of Ridgewood. Consequently, the proposed consolidation would leave only one source of banking services in these four contiguous communities and eliminate a substantial amount of existing and potential competition.

Report on competitive factors (Annandale-Alexandria, Virginia).

There had been distributed a draft of report to the Comptroller of the

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Currency on the competitive factors involved in the proposed consolidation of Old Dominion National Bank of Fairfax County, Annandale, Virginia, and Mount Vernon Bank and Trust Company of Alexandria, Alexandria, Virginia. The conclusion stated in the draft was that although the applicants were competitive, the probable effects of the proposed consolidation on competition did not appear seriously adverse.

In discussion, Governor Robertson said it should be kept in mind that this was a situation where a holding company (First Virginia Corporation) was expanding rapidly, this time through merger of an independent bank with the Old Dominion National Bank of Fairfax County. If the merger should be consummated, this company and another holding company (Financial General Corporation) would operate 50 per cent of the banking offices and control more than 50 per cent of the bank deposits in the area comprising Alexandria, Arlington County, Fairfax County, and Falls Church. Through this merger First Virginia Corporation would bring its control of banking resources in this area up to almost the level of the resources controlled by the other holding company, and he would be reluctant to see further expansion, either through merger or holding company procedures. Also, although he would not request changes, he felt that the body of the report on competitive factors tended to understate the degree of competition between the two banks participating in the proposed merger.



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Governor Mills said that he shared some of the concern expressed by Governor Robertson and would suggest that the conclusion be augmented by adding a sentence to the effect that the result of the consolidation would be to concentrate a substantial portion of the banking resources in the area under the control of two bank holding companies.

There being agreement with this suggestion, the report was approved unanimously for transmittal to the Comptroller in a form in which the conclusion read as follows:

Although applicants are competitive, probable effects of the proposed consolidation on competition do not appear seriously adverse. However, a result of the consolidation would be to concentrate a substantial percentage of the banking resources in the area (Arlington County, Alexandria, Fairfax County, and Falls Church) under the control of two bank holding companies.

Request of First Virginia Corporation (Item No. 1). There had been distributed a memorandum from the Division of Examinations and the Legal Division dated November 29, 1961, recommending that the Board grant a request from First Virginia Corporation, Arlington, Virginia, for an extension of time within which to acquire stock of Richmond Bank and Trust Company, Richmond, Virginia, which acquisition was approved by order of the Board dated September 5, 1961.

No objection being indicated, the issuance of an order granting the request for extension of time was approved unanimously. A copy of the order is attached as Item No. 1.

Messrs. Hostrup and Thompson then withdrew from the meeting.



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Definition of savings deposits. In September 1961 the Board of Governors and the Federal Deposit Insurance Corporation published a proposed revised definition of savings deposits, as contained in their respective regulations. As the result of the publication, the Board received letters from about twenty banks. The Corporation received no comments, but its staff was furnished copies of the letters received by the Board. Practically all of the letters considered the proposed amendments to be necessary and desirable; the few suggestions or criticisms were summarized in a memorandum from the Legal Division dated November 29, 1961, which had been distributed to the Board. Certain changes in the proposed amendments were recommended as the result of a review of the suggestions received. Submitted with the memorandum was a draft of section 217.1(e) of Regulation Q, Payment of Interest on Deposits, which reflected the suggested changes. Clearance with the Federal Deposit Insurance Corporation at the staff level had now been accomplished. It was proposed, if the Board favored the proposed amendments in the form drafted, to ascertain whether the Corporation was prepared to adopt a similar amendment to its regulations and, if so, to arrange for simultaneous publication of the amendments in the Federal Register.

One of the proposed changes suggested in the memorandum from the Legal Division would insert language to provide for withdrawals from a no-passbook savings account by the holder of a general power of attorney. Governor Robertson noted that the holder of the general power of attorney

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might be the bank of deposit, and accordingly it was agreed to make a further change to specify that withdrawals could be permitted by the holder of a general power of attorney other than the bank of deposit.

Further discussion of the proposed amendments included reference to the effect thereof on the so-called United Security Savings Account Plan currently being advertised widely by the Citizens Bank and Trust Company of Park Ridge (Chicago), Illinois. It was noted by Mr. Molony that the Park Ridge bank might be expected to charge, perhaps publicly, that the revised savings account definition was directed specifically toward a particular plan that was of advantage to the public. Although the possibility of such a charge was acknowledged, Mr. Hackley pointed out that the Board was trying to maintain the fundamental distinction between checking and savings accounts and that the banking fraternity as a whole could be expected to support this effort.

At the conclusion of the discussion, the proposed amendments were approved unanimously, subject to the change that had been agreed upon at this meeting, along with amendment of the provisions of Regulation D, Reserves of Member Banks, to provide a conforming savings deposit definition, with the understanding that if the Federal Deposit Insurance Corporation should similarly amend its corresponding regulation, the amendments approved by the Board and the Corporation would be published simultaneously in the Federal Register and the amendments to Regulations Q

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and D would become effective as of a date approximately 30 days from the date of such publication.

Secretary's Note: In view of a minor change suggested by the Federal Deposit Insurance Corporation, the matter was considered again by the Board on December 12, 1961.

Negotiable time certificates of deposit. Governor Robertson noted that there might be some question whether the issuance of negotiable time certificates of deposit would constitute the issuance of securities by commercial banks in violation of the statutes. He suggested that the staff be requested to study this matter further over the course of the next few months in order that the Board might be in a position to take such steps, if any, as seemed to be required, and it was agreed that such a study should be made.

Director appointment. Chairman Martin reported having been advised by Chairman Decker of the Richmond Reserve Bank that Mr. J. T. Menzies, Jr., a Board-appointed director of the Baltimore Branch to whom reappointment had been tendered for the three-year term beginning January 1, 1962, had indicated that his position with the Crosse & Blackwell Company might result in his moving his home to New York and reporting to a head office in New York, even though he would continue to be assigned to a major extent to the Baltimore territory. Mr. Menzies had raised the question whether he should accept reappointment as a branch director under such circumstances.

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Following discussion of the matter, agreement was expressed with the suggestion that Chairman Decker be authorized to inform Mr. Menzies that the latter's acceptance of the appointment would be in order, with the understanding, of course, that if the anticipated change of residence to New York should materialize, he would then resign as a Baltimore Branch director.

Question raised by Comptroller of the Currency. Chairman Martin stated that Comptroller of the Currency Saxon had visited him last Friday afternoon. Mr. Saxon, who was contemplating having a study made by a committee with regard to factors bearing upon commercial bank supervision, growth, and development, had raised the question whether the Federal Reserve would want to consider participating in the study.

Chairman Martin said he had told Mr. Saxon that he would bring the question to the attention of the Board. The Chairman then suggested that the Board might ask Governor Robertson to explore the matter to see what was involved and make a recommendation as to whether Federal Reserve participation would be desirable or undesirable.

After discussion, it was understood that Governor Robertson would obtain additional information and bring the matter back to the Board for further consideration.

The meeting then adjourned.

  
Secretary



Item No. 1

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## UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

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In the Matter of the Application of

THE FIRST VIRGINIA CORPORATION

for prior approval of acquisition of  
voting shares of Richmond Bank and  
Trust Company, Richmond, Virginia  
-----

ORDER EXTENDING TIME FOR ACQUISITION OF  
VOTING SHARES OF RICHMOND BANK AND TRUST COMPANY

WHEREAS, there has come before the Board of Governors,  
pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956  
(12 U.S.C. 1842) and section 4(a)(2) of Federal Reserve Regulation Y  
(12 CFR 222.4(a)(2)), an application by The First Virginia Corporation,  
Arlington, Virginia, for approval of the acquisition of 80 per cent or  
more of the voting shares of Richmond Bank and Trust Company; and said  
application has been granted by Order of the Board dated September 5,  
1961 and published in the Federal Register (26 Fed. Reg. 8499), which  
Order included a proviso that such acquisition be completed within three  
months from the date thereof; and



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WHEREAS, The First Virginia Corporation has applied to the Board for a ninety-day extension of the period prescribed by said proviso, and it appears to the Board that such an extension would not be inconsistent with the public interest;

IT IS HEREBY ORDERED, that the time within which said acquisition shall be completed is extended to March 5, 1962.

Dated at Washington, D. C. this 4th day of December, 1961.

By order of the Board of Governors.

(Signed) Merritt Sherman

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Merritt Sherman,  
Secretary.

(SEAL)