

Minutes for February 13, 1962




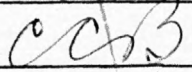
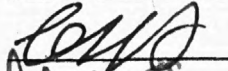
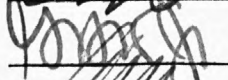
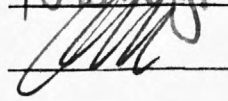
To: Members of the Board
From: Office of the Secretary

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

It is proposed to place in the record of policy actions required to be kept under the provisions of section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below:

Page 1 Amendment to Regulation N, Relations with Foreign Banks and Bankers

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
Tuesday, February 13, 1962. The Board met in the Board Room at 3:45 p.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. Thomas, Adviser to the Board
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Molony, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Noyes, Director, Division of Research and
Statistics
Mr. Furth, Adviser, Division of International
Finance

This meeting was held during a recess in a meeting of the Federal Open Market Committee, at which the Committee was giving consideration to actions required to be taken by it in connection with the adoption of a program of System operations in foreign currencies.

As discussed in memoranda from Mr. Hackley dated February 2 and February 7, 1962, which had been distributed to the Board, the adoption of such a program called for certain actions on the part of the Board as well as the Federal Open Market Committee. Accordingly, the actions described hereinafter were taken by the Board at this time.

Amendment to Regulation N (Item No. 1). Although the contemplated transactions in foreign currencies through accounts with foreign central banks would be in the nature of open market operations (e.g.,

2/13/62

-2-

purchase and sale of cable transfers) subject to the jurisdiction of the Federal Open Market Committee, they would also involve the opening and maintenance by a Federal Reserve Bank of accounts with foreign central banks; and under section 14(e) of the Federal Reserve Act the establishment of such accounts was authorized only "with the consent or upon the order and direction of the Board of Governors of the Federal Reserve System and under regulations to be prescribed by said Board." In addition, such transactions would involve relationships and transactions with foreign banks; and section 14(g) of the Federal Reserve Act (1) required the Board to exercise special supervision over all relationships and transactions of any kind entered into with foreign banks, and (2) provided that such relationships and transactions would be subject to such regulations, conditions, and limitations as the Board might prescribe. Under present law, these responsibilities of the Board could not be delegated to the Federal Open Market Committee. However, it appeared that, consistent with the law, the Board could by regulation appropriately consent to the supervision by the Committee of transactions in foreign accounts to the extent that they involved open market operations.

The Board's Regulation N, Relations with Foreign Banks and Bankers, which had not been amended since January 1, 1944, generally paraphrased the provisions of section 14(g) of the Federal Reserve Act. It contained no specific provision regarding the opening of

2/13/62

-3-

accounts by Federal Reserve Banks with foreign banks. In order to comply with the provisions of section 14(e), it seemed desirable for the Board by regulation to consent to the opening of accounts with foreign banks. In addition, in order to provide a legal basis for supervision by the Open Market Committee of foreign currency transactions, it was necessary that the Board, in the exercise of its responsibilities under section 14(g), authorize the Open Market Committee to supervise and direct relations with foreign banks insofar as they related to open market transactions conducted through accounts with such banks. With Mr. Hackley's memorandum of February 2, 1962, there had been submitted an amendment to Regulation N designed to accomplish these objectives.

Following a brief discussion, the proposed amendment to Regulation N was approved, effective February 13, 1962, Governor Robertson voting "no" for reasons that he had stated at the meeting of the Federal Open Market Committee on January 23, 1962, and also at today's meeting of the Committee, during discussion of the proposed program of System operations in foreign currencies.

A copy of the amendment to Regulation N, as published in the Federal Register pursuant to this action, is attached as Item No. 1.

Approval of opening and maintenance of accounts (Item No. 2).

Pursuant to section 214.5(a) of the amended Regulation N, it was necessary for the Board to approve the opening and maintenance by

2/13/62

-4-

the Federal Reserve Bank of New York of any accounts with designated foreign banks. Mr. Hackley's memorandum of February 7, 1962, had suggested that this action could be embodied in a letter to the Federal Reserve Banks, and a draft of such a letter was submitted with the memorandum. The letter would state that the Board had approved the continued maintenance by the New York Bank of existing accounts with the Bank of Canada, the Bank of France, and the Bank of England, and the opening and maintenance of accounts payable in foreign currencies with the following foreign banks, all such accounts to be subject to the provisions of section 5 of Regulation N, as amended:

National Bank of Belgium
German Federal Bank
Bank of Italy
Netherlands Bank
Swiss National Bank

Following a brief discussion, the proposed action, as embodied in the draft of letter to the Federal Reserve Banks, was approved unanimously. A copy of the letter sent under date of February 15, 1962, pursuant to this action, is attached as Item No. 2.

Reporting of foreign currency holdings. Mr. Hackley's memorandum of February 7, 1962, had also submitted a draft of letter that might be sent to the Federal Reserve Banks with regard to the reporting of total foreign currency holdings of the Banks. However, consideration of this phase of the matter was deferred.

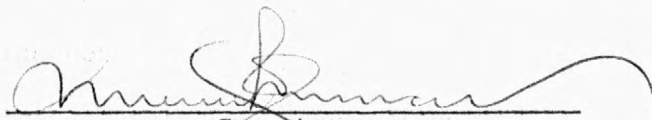
2/13/62

-5-

Secretary's Note: Action approving a letter to the Federal Reserve Banks in this regard was taken by the Board on February 16, 1962.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum dated February 8, 1962, from the Division of Examinations, Governor Shepardson today approved on behalf of the Board a list of 86 persons to be invited to attend a dinner in connection with the meeting of representatives of Bank Examination Departments of the Federal Reserve Banks to be held on March 26 and 27, 1962, approved by the Board on January 18, 1962.


Secretary

TITLE 12 - BANKS AND BANKING

Item No. 1

2/13/62

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Reg. N

PART 214 - RELATIONS WITH FOREIGN BANKS AND BANKERS

Accounts with Foreign Banks

1. Effective February 13, 1962, Part 214 is amended by changing the designation of section 214.5 to section 214.6, and by inserting immediately prior thereto a new section 214.5 to read as follows:

§ 214.5 Accounts with foreign banks.

(a) Any Federal Reserve Bank, with the consent of the Board, may open and maintain accounts payable in foreign currencies with such foreign banks as may be designated by the Board.

(b) Notwithstanding other provisions of this Part, any officer or other representative of a Federal Reserve Bank which maintains an account with a foreign bank may conduct such negotiations and enter into such agreements, contracts, or understandings with such foreign bank as may be authorized or directed by the Federal Open Market Committee in order to effectuate the conduct of open market transactions of the Federal Reserve Banks incident to the opening, maintenance, operation, increase, reduction, or discontinuance of such account; and, in any such case, such negotiations, agreements, contracts, or understandings shall be subject to such authorizations, directions, regulations, and limitations as may be prescribed by, or pursuant to authority of, the Federal Open Market Committee.

-2-

(c) Any Federal Reserve Bank may, when authorized or directed so to do by, or under the authority of, the Federal Open Market Committee, carry on or conduct, through any other Federal Reserve Bank which maintains an account with a foreign bank, any open market transactions authorized by section 14 of the Federal Reserve Act. Transactions authorized by section 14 which are not open market transactions may be carried on or conducted through such other Federal Reserve Bank only with the approval of the Board.

(d) Notwithstanding other provisions of this Part, reports with respect to any accounts opened and maintained, and negotiations, agreements, contracts, and understandings entered into, pursuant to this section shall be made to the Board at least quarterly, and more frequently if so requested by the Board, by a duly authorized officer of the Federal Reserve Bank involved.

2a. The purposes of this amendment are (1) to regulate, as contemplated by statute, the opening and maintenance by Federal Reserve Banks of accounts with foreign banks, and (2) to provide that negotiations and agreements, contracts, or understandings entered into by a Federal Reserve Bank with foreign banks shall be subject to such authorizations, directions, regulations, and limitations as may be prescribed by the Federal Open Market Committee to the extent necessary to effectuate the conduct of open market transactions by the Federal Reserve Banks through such foreign accounts.

b. The notice and public procedure described in section 4(a) and section 4(b) of the Administrative Procedure Act and the prior publication described in section 4(c) of said Act are not followed in connection with this amendment for the reasons and good cause found as stated in paragraph (e) of § 262.1 of the Board's Rules of Procedure (Part 262), and especially because such notice and prior publication are unnecessary since they would not aid the persons affected and would serve no other useful purpose.

(Secs. 14(e) and (g); 12 U.S.C. 358, 348a.)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

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

S-1823

Item No. 2
2/13/62ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 15, 1962.



Dear Sir:

The Board has adopted, effective February 13, 1962, an amendment to its Regulation N, "Relations with Foreign Banks and Bankers", regarding the opening and maintenance with foreign banks of accounts payable in foreign currencies and negotiations and agreements with such foreign banks in order to effectuate the conduct of open market transactions. Enclosed is a copy of such amendment in the form in which it will be published in the Federal Register.

The Board has also, pursuant to section 214.5(a) of Regulation N, as amended, consented to the continued maintenance by the Federal Reserve Bank of New York of existing accounts with the Bank of Canada, the Bank of France, and the Bank of England, and to the opening and maintenance of accounts by the Federal Reserve Bank of New York payable in foreign currencies with the foreign banks designated below:

National Bank of Belgium
German Federal Bank
Bank of Italy
Netherlands Bank
Swiss National Bank

All such accounts will be subject to the provisions of section 5 of Regulation N, as amended.

Very truly yours,

A large, stylized handwritten signature in black ink, appearing to read "Merritt Sherman".

Merritt Sherman,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS