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Minutes for September 27, 1962

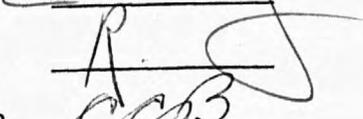
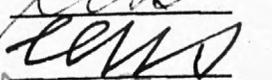
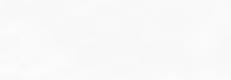
To: Members of the Board
From: Office of the Secretary

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 7 Amendment to Regulation J, Check Clearing and Collection.

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 Thursday, September 27, 1962. 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. Fauver, Assistant to the Board
 Mr. Farrell, Director, Division of Bank Operations
 Mr. Solomon, Director, Division of Examinations
 Mr. Hexter, Assistant General Counsel
 Mr. Shay, Assistant General Counsel
 Mr. Sammons, Adviser, Division of International Finance
 Mr. Goodman, Assistant Director, Division of Examinations
 Mr. Leavitt, Assistant Director, Division of Examinations
 Mr. Sprecher, Assistant Director, Division of Personnel Administration
 Mr. Poundstone, Review Examiner, Division of Examinations
 Mr. Mattras, General Assistant, Office of the Secretary

Circulated items. The following items, copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

Item No.

Letter to First-City Bank & Trust Company, Hopkinsville, Kentucky, approving a change in the location of a branch near Fort Campbell.

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Item No.

Letter to District of Columbia National Bank,
Washington, D. C., granting its request for
permission to maintain reduced reserves.

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Morgan Guaranty International Finance Corporation (Item No. 3).

There had been distributed a memorandum from the Division of Examinations dated September 21, 1962, along with a draft of a letter addressed to Morgan Guaranty International Finance Corporation, New York, New York, an Edge corporation, granting permission (1) to purchase shares of Morgan & Cie., S. A., a general investment banking firm to be located in Paris, France, and (2) to amend the Articles of Association of Morgan Guaranty International Finance Corporation so as to allow an increase in capital stock from \$2,000,000 to \$6,000,000.

In discussion of the matter, Mr. Goodman brought out that the proposed purchase of substantially all the stock of a foreign investment banking corporation by an Edge corporation was a novel development. All activities of the investment banking firm would be outside the United States. Nevertheless, in view of the statutory divorcement of investment banking and commercial banking in the United States, the proposal had a policy aspect. If the Board should be inclined to favor the proposal, but want to avoid possible confusion of the investment company with the Paris Branch of the parent Morgan Guaranty Trust Company, a paragraph could be added to the proposed letter requiring the investment company to change its name and to operate in offices separate and distinct from the premises occupied by the Paris Branch of the trust company.

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Mr. Goodman expressed the view that the objective inherent in the current proposal was a worthy one, and consistent with the purposes of the Edge Act. He also pointed out, however, there were involved in a proposal of this kind certain questions to which the Board presumably would want to give consideration in its pending review of Regulation K, Corporations Doing Foreign Banking or Other Foreign Financing under the Federal Reserve Act.

Mr. Hexter noted that in the 1930s the divorcement of commercial and investment banking had seemed important to the Congress not only for the protection of bank customers but for the protection of the banks themselves. In the situation envisaged by the present proposal, an American bank doing business in a foreign city would have an investment company subsidiary operating in the same city. To that extent the hazards envisaged in the 1930s would exist. It might be that in this instance the hazards were limited enough to be disregarded because of the relatively small volume of activity carried on by Morgan Guaranty at its Paris Branch, but this would be a step away from the complete divorcement of commercial and investment banking that was contemplated by the enactment of the legislation of the 1930s.

In reply to a question regarding the potential effectiveness of the proposal as a step toward transferring some of the burden of foreign capital financing from this country to other financial centers, Mr. Sammons brought out that the activities of any one firm would be of marginal benefit. In principle, however, the proposal would seem to be in the

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right direction. The more that could be done to encourage the development of European capital markets, particularly the French market, the better it would be from the standpoint of the U. S. balance of payments.

Comments by members of the Board revealed a unanimity of opinion against requiring that the French investment company change its name or operate at a Paris address different from that of the Paris Branch of Morgan Guaranty Trust Company. On the proposal itself, Governor Robertson indicated that although he would approve, he had some qualms about an Edge corporation making an investment in this kind of operation. His present views were tentative, and his doubts might be resolved when the pending review of Regulation K was completed. Governor Balderston indicated that he had some reluctance about breaking down the separation between commercial and investment banking; this was outweighed, however, by his desire to see some of the burden of world financing shifted from New York City to foreign capitals, especially in countries where foreign exchange reserves were accumulating.

Accordingly, unanimous approval was given to the proposed letter to Morgan Guaranty International Finance Corporation, without the additional paragraph that had been suggested for possible inclusion. A copy of the letter, as sent, is attached as Item No. 3.

Inter-Agency Bank Examination School. There had been distributed a memorandum from Governor Robertson dated September 26, 1962, regarding the possibility of increasing the participation of State banking department

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representatives in the Inter-Agency Bank Examination School. (On March 16, 1962, the Board had approved a plan that contemplated paying one-third of the expenses of State men attending the School, but this plan was never put in operation.) It was noted that the recent withdrawal of the Comptroller of the Currency from participation in the School would make it possible to accept a larger number of students from State banking departments. However, the participation of a number of States was precluded by a shortage of funds. Therefore, Governor Robertson proposed that the Board give further consideration to the possibility of assisting the States in financing their students. Specifically, he proposed that the Federal Reserve pay one-half of the expense and the State banking department the other half. The expense to be shared would consist of a per diem of \$16 and transportation. Should the Board pay one-half of the expense of sending 80 men to the School, its total expenditure for 1963 was estimated at approximately \$24,000. It was indicated that the Chairman of the Federal Deposit Insurance Corporation was favorably disposed toward a program of assisting the States, but that the Corporation did not feel free to participate at this time.

The memorandum also suggested that, if the Board should approve this project, a letter be sent to all State bank supervisors and to the Executive Director, National Association of Supervisors of State Banks, informing them of the Board's decision. Governor Robertson further suggested that a public announcement be made to the effect that the Comptroller of the Currency was withdrawing from the training program,

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that the Bank Examination School would be continued by the Board of Governors and the Federal Deposit Insurance Corporation, that the facilities of the School would now be more readily available to State bank supervisors, and that the Federal Reserve would plan to contribute financially toward the cost of training State examiners.

In a discussion of the possibility of offering to pay part of the expenses of representatives of State banking departments under present conditions, a number of factors were mentioned by members of the Board that suggested thorough consideration before such a decision was reached, particularly if the Federal Deposit Insurance Corporation did not participate. Even if the Corporation should later express a willingness to participate, the view was expressed the matter should be thought through carefully. It was pointed out that the Corporation obtained its revenue through assessments on State and national banks alike. It was the consensus, therefore, that no step should be taken at this time to signify a willingness on the part of the Federal Reserve to contribute to the expenses of State bank examiners attending the school. Question then was raised as to the necessity for the issuance of a press statement. The principal purpose would be to make known to the State banking departments that additional space would be available for their personnel due to the withdrawal of the Comptroller of the Currency. This could be made known to the State bank supervisors by communicating directly with them, or perhaps by working through the National Association of Supervisors of State Banks.

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In the light of this discussion, Governor Robertson said it would appear that the appropriate procedure was to forget about the expense matter for the time being. If and when the Federal Deposit Insurance Corporation was ready to take some steps in that direction, the Board could reconsider the matter. Meanwhile, the School would be carried on as at present, and steps could be taken to see that all of the State bank supervisors were notified of the possibility of sending more people than before.

It was indicated that the procedure outlined by Governor Robertson would be agreeable to the Board.

Amendment to Regulation J (Items 4, 5, and 6). Israel Discount Bank Limited, a commercial bank of Tel Aviv, Israel, had inquired concerning the eligibility of its New York City branch for membership in the Federal Reserve System. Having been advised that the branch would not be eligible for membership, the Discount Bank inquired whether the branch might maintain with the Federal Reserve Bank of New York a nonmember clearing account under the first paragraph of section 13 of the Federal Reserve Act or, if not, whether that branch might open with the Reserve Bank an "ordinary balance account," presumably under section 14(e) of the Act.

On July 31, 1962, the Board held a meeting on this matter with President Hayes of the Federal Reserve Bank of New York and President Swan of the Federal Reserve Bank of San Francisco. Messrs. Hayes and

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Swan agreed that section 14(e) should not be used as a basis for maintenance of accounts by Reserve Banks for foreign commercial banks or their branches. As to the possibility of an account under section 13, President Hayes indicated that the New York Reserve Bank would be inclined favorably, having in mind considerations of international reciprocity. However, Counsel for the Reserve Bank had expressed serious doubts as to whether such action would be legally permissible under the statute. On the other hand, Counsel for the San Francisco Reserve Bank, according to President Swan, did not regard the provisions of the Federal Reserve Act as prohibiting the maintenance of nonmember clearing accounts for branches of foreign commercial banks. It was pointed out that, on the strength of an informal opinion issued by Board Counsel in 1917, the Portland and Seattle Branches of the Reserve Bank had been maintaining such accounts for about 45 years for branches of a Canadian bank.

At the conclusion of the July 31 meeting, it was understood that the Board's Legal Division would get in touch with the legal staff of the Federal Reserve Bank of New York with a view to further consideration of the matter.

Thereafter, in a letter dated August 16, 1962, from First Vice President Treiber, the New York Reserve Bank reiterated the view that it would be desirable to open a nonmember clearing account for the New York City branch of Israel Discount Bank, assuming there was a legal basis for doing so. However, after thorough reconsideration of the matter, Counsel for the Reserve Bank still entertained serious doubts that a New York branch

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of a foreign bank could be said to be a nonmember bank for the purposes of section 13 of the Federal Reserve Act. Counsel therefore had serious reservations as to the corporate power of the Reserve Bank to open an account for such a branch under that section. The Reserve Bank renewed its previous suggestion that legislation be sought to clarify the authority of Federal Reserve Banks, in their discretion, to open and maintain nonmember clearing accounts for domestic branches of foreign banks.

The letter from the New York Bank was distributed to the Board with a memorandum from Mr. Shay dated September 17, 1962, reviewing in some detail the whole question presented by the inquiry from Israel Discount Bank. Mr. Shay concluded that on balance the Board would be justified as a legal matter in construing section 13 of the Federal Reserve Act as not precluding a Reserve Bank, in its discretion, from opening and maintaining a nonmember clearing account for a branch in this country of a foreign commercial bank. It was noted that section 210.2(a) of Regulation J, Check Clearing and Collection, provided for the opening of nonmember clearing accounts for "nonmember State banks and trust companies," but that section 13 of the Federal Reserve Act authorized such accounts for any "nonmember bank or trust company." Reference also was made to certain Board interpretations regarded as relevant. The memorandum suggested that if the Board should decide that a branch such as the New York City branch of Israel Discount Bank might properly be regarded as a "nonmember bank" within the meaning of the first paragraph of section 13, the Board might wish to amend section 210.2(a) of Regulation J so that the Regulation would

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track the statute by referring to "nonmember banks and trust companies" rather than "nonmember State banks and trust companies." As an alternative, the Board might formally advise the Federal Reserve Bank of New York that, in the Board's view, section 13 of the Act should not be construed as precluding the establishment of a nonmember clearing account for the New York City branch of Israel Discount Bank. Attached to the memorandum was a draft of proposed amendment to Regulation J. Should the Board prefer the alternative procedure, there was attached a draft of letter to the New York Reserve Bank.

Following explanatory comments by Mr. Shay on the history of consideration of the request of Israel Discount Bank, there was a general discussion from which it appeared that the members of the Board were unanimous in accepting the conclusion of Mr. Shay that section 13 might be justifiably construed as not precluding a Federal Reserve Bank, in its discretion, from opening and maintaining a nonmember clearing account for a branch in this country of a foreign commercial bank. This meant that it would be left to the New York Reserve Bank to decide whether, on policy and operational grounds, it wished to open an account in any particular instance.

From this point the discussion turned to the question of procedural alternatives, and Messrs. Hexter and Shay stated reasons why they considered it preferable to amend Regulation J. It was pointed out that the Regulation, as it stood, might convey the impression that the privilege of a nonmember

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clearing account was available only to State-chartered nonmember banks, whereas the regulations of a Government agency should convey to readers the actual situation.

Comments by members of the Board reflected agreement that the preferable course would be to amend the Regulation. It was noted that there would appear to be no reason to publish a proposed amendment in the Federal Register for comments; it did not seem that anyone would be injured by such an amendment. It was further noted that it would not appear necessary for the explanation of the amendment in the Federal Register to go beyond an indication to the effect that the amendment was being made for purposes of clarification.

Accordingly, it was agreed unanimously to amend section 210.2(a) of Regulation J, effective September 27, 1962, to specify that nonmember clearing accounts were available to "nonmember banks and trust companies" rather than "nonmember State banks and trust companies."

A copy of the notice published in the Federal Register pursuant to this action is attached to these minutes as Item No. 4. A copy of the letter sent to all Federal Reserve Banks is attached as Item No. 5. A copy of the letter sent to the Federal Reserve Bank of New York is attached as Item No. 6. (The form of the letter to the New York Bank reflected certain suggestions made during the discussion at this meeting. Copies of the letter were sent to the other Federal Reserve Banks.)

All members of the staff except Messrs. Sherman and Sprecher then withdrew from the meeting.

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Outside business and teaching activities. Before this meeting there had been distributed a memorandum from the Division of Personnel Administration dated September 14, 1962, presenting information regarding outside business and teaching activities that had been reported by members of the Board's staff in response to the annual survey that had been made under date of August 10, 1962, in pursuance of the requirements of the Board. The Division of Personnel Administration recommended that the Board give permission to the members of the staff to continue or enter into the activities reported, with the understanding that any individual reporting a writing activity would be advised of the Board's policy regarding honoraria and royalties.

None of the members of the Board having indicated objection to any of the activities reported, the recommendation of the Division of Personnel Administration was approved unanimously.

Mr. Sprecher then withdrew from the meeting.

Federal Reserve motion picture. Governor Mitchell reported that President Wayne of the Federal Reserve Bank of Richmond and Mr. Bunting of the Philadelphia Reserve Bank, acting as members, respectively, of the Committee and Subcommittee of the Conference of Presidents concerned with production of a System motion picture, had met with him yesterday to discuss the proposed script for the film. Mr. Wayne was appreciative of suggestions relating to the treatment of the structure of the System in the film, and he seemed pleased with a number of specific suggestions for changes in wording of the script. At the conclusion of the meeting, Mr. Wayne

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indicated that he would have Mr. Bunting rework the script along the lines discussed and when it had been revised in form satisfactory to him it would be resubmitted to the Board. Governor Mitchell felt that on this basis there was no reason why work on the film should not proceed along the lines discussed earlier, it being understood that some photographic work would be done this fall and that the revised script would be available for further review by the Board.

The members of the Board indicated that the procedure outlined by Governor Mitchell was satisfactory to them.

Reserve Bank officer salaries. Governor Balderston referred to certain informal discussions that he had had regarding the Board's action on September 12, 1962, in adopting a new procedure for administration of salaries of officers at the Federal Reserve Banks, including changes in the ranges for such salaries. He suggested that, in view of the short period between now and the time when Reserve Bank budgets for the first half of 1963 were due, it would be desirable that letters explaining to the Chairmen of the Federal Reserve Banks the changes approved by the Board be gotten out promptly. He also felt that this would assist in planning for any meetings that the Board's Committee on Organization, Compensation, and Building Plans* might hold with the Presidents of the Reserve Banks to discuss informally their proposals for officer salaries for the coming year. Accordingly, it was understood that a draft of letter to the Chairmen of the Reserve Banks would be presented within the next few days for the Board's consideration.

* Previously referred to as Committee on Organization and Building Plans. See minutes June 27, 1962.

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Report of System Committee on Eligible Paper. Governor Balderston referred to the report of the System Committee on Eligible Paper that had been submitted under date of May 25, 1962, and on which the Conference of Presidents at its meeting on September 10, 1962, approved a recommendation of its Subcommittee on Legislation for a broad revision of the law. The Subcommittee's recommendation contemplated that a draft of such legislation be submitted to the Board of Governors for its consideration, that the Farm Credit Administration be consulted with respect to proposed changes in the law that would be of interest to it, that the draft be submitted to the American Bankers Association and the Association of Reserve City Bankers for their views, and that the Board of Governors at an early opportunity recommend such legislation to the Congress.

Governor Balderston stated reasons why he felt that it would be desirable for the Board to take up this recommendation of the Conference of Presidents promptly.

In a brief discussion, Governor Mills expressed grave reservations regarding the changes recommended by the Committee on Eligible Paper and the Subcommittee on Legislation, adding that he hoped the Board would give careful consideration to the entire subject of the discount function before preparing legislative changes.

Governor Balderston pointed out that he was not suggesting that any action be taken today but that the matter be brought up for consideration by the Board at an early date, and no objection was expressed to this procedure.

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Annex to Board's building. Governor Shepardson referred to the discussion at the meeting of the Board on September 12, 1962, and to his understanding of the action taken at that time authorizing a new contract with the Board's architect to develop new plans for such a building in lieu of those that had been prepared in the early 1940's. He stated that, as he understood that discussion, he had been authorized to negotiate a new contract with the architect with a view to proceeding with deliberate speed to develop ideas for a new building.

All of the members of the Board concurred with Governor Shepardson's understanding that he had been authorized to work out a new contract with the architect for developing such plans. Governor Mitchell stated, however, that as he conceived the program the architect would need a good deal in the way of guidance as to ideas before he could start to develop plans under such a contract. It was Governor Mitchell's thought that various persons throughout the Board's organization should be consulted in planning for the needs of the Board in any new building that might later be authorized. For example, he thought that the various divisions as well as members of the Board should be invited to make suggestions as to the needs to be supplied in such a building.

Governor Shepardson responded that there was no question about this aspect of the program. His purpose in mentioning the matter was to confirm his understanding that he had been authorized to negotiate a new contract with the architect as to the terms of his employment. This, it seemed to him, was clearly a necessary step precedent to actual planning

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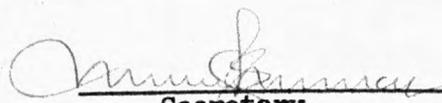
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for the building. He had already initiated steps to develop such a contract with the architectural firm that had prepared the earlier plans, and when negotiations for the new contract with the architect had proceeded to a suitable point, he would bring the matter to the attention of the Board.

Thereupon the meeting adjourned.

Secretary's Notes: Pursuant to the recommendation contained in a memorandum from the Board's General Counsel, Governor Shepardson today approved on behalf of the Board the appointment of Janet Hart (Mrs. Harry Sylvester) as Senior Attorney in the Legal Division, with basic annual salary at the rate of \$10,635, effective the date of entrance upon duty.

Governor Shepardson today noted on behalf of the Board a memorandum advising of the disability retirement of Willa L. Brink, Clerk, Division of International Finance, effective August 10, 1962.


Secretary

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

Item No. 1
9/27/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 27, 1962

Board of Directors,
First-City Bank & Trust Company,
Hopkinsville, Kentucky.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the change in location of a branch by First-City Bank & Trust Company from U. S. Highway 41A, opposite gate 4, Fort Campbell, Kentucky, to U. S. Highway 41A, opposite gate 5, Fort Campbell, Kentucky. This approval is granted provided the branch is established by February 11, 1963.

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
9/27/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 27, 1962



Board of Directors,
District of Columbia National Bank,
Washington 6, D. C.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the District of Columbia National Bank of Washington, D. C. to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective as of the date it opens for business.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 3
9/27/62



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 27, 1962

Morgan Guaranty International
Finance 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 July 27, 1962, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants its consent for Morgan Guaranty International Finance Corporation ("MGIFC") to purchase and hold 10,000 shares, par value N.F.1,000 each, of Morgan & Cie., S.A., Paris, France ("M&C"), at a cost of approximately US\$2,041,000, provided such stock is acquired within one year from the date of this letter.

The Board's consent is granted upon condition that MGIFC shall dispose of its holding of stock of M&C, as promptly as practicable, in the event that M&C 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 MGIFC to be inappropriate under the provisions of Section 25(a) of the Federal Reserve Act or regulations thereunder.

It has been noted from the English translation of the "Statuts" of Morgan & Cie., S.A. that the Object of the company is, among other things:

" - to carry out all bank, discount, advance, loan, credit, commission, brokerage, exchange, arbitrage, precious metal trade and coinage transactions;" [underscoring supplied]

It is assumed, of course, that Morgan & Cie., S.A. will not engage in deposit or acceptance operations and the Board's consent is given subject to this additional condition.

Morgan Guaranty International
Finance Corporation

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The Board of Governors also approves the amendment to Article SEVENTH of the Articles of Association of MGIFC to provide that the capital stock of the Corporation shall consist of 60,000 shares of common stock of the par value of \$100 each.

Upon the completion of the organization of M&C, it is requested that the Board of Governors be furnished, through the Federal Reserve Bank of New York, copies of the final Articles of Association and By-Laws, together with (a) a list of officers and directors, with addresses and principal business affiliations; (b) date established and opened for business; and (c) exact location.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Item No. 4
9/27/62

TITLE 12 - BANKS AND BANKING

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. J]

PART 210 - CHECK CLEARING AND COLLECTION

General Requirements

1. Effective September 27, 1962, § 210.2(a) is amended to read as follows:

§ 210.2 - General requirements.

(a). In pursuance of the authority vested in it under these provisions of law, the Board of Governors of the Federal Reserve System, desiring to afford both to the public and to the various banks of the country a direct, expeditious, and economical system of check collection and settlement of balances, has arranged to have each Federal Reserve bank exercise the functions of a clearing house and collect checks for such of its member banks as desire to avail themselves of its privileges and for such nonmember banks and trust companies as may maintain with the Federal Reserve bank balances sufficient to qualify them under the provisions of section 13 to send items to Federal Reserve banks for purposes of exchange or of collection. Such nonmember banks and trust companies will hereinafter be referred to as nonmember clearing banks.

2a. The purpose of this amendment is to substitute the term "nonmember banks" for the term "nonmember State banks" at two places where it appears in § 210.2(a), so as to conform the language of

this section to the first paragraph of section 13 of the Federal Reserve Act (12 U.S.C. 342) and to § 201.1 of this Part. 1/

b. The notice, public participation, and deferred effective date described in section 4 of the Administrative Procedure 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 of this chapter), and specifically because in connection with this amendment such procedures are unnecessary as they would not aid the persons affected and would serve no other useful purpose.

(Sec. 11(i), 38 Stat. 262; 12 U.S.C. 248(i). Interpret or apply secs. 13, 16, 38 Stat. 263, 265; 12 U.S.C. 248(o), 342,360.)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

1/ Should have referred to § 210.1 of this Part.

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

Item No. 5
9/27/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 28, 1962.



Dear Sir:

Enclosed is a copy of an amendment to Regulation J adopted by the Board effective September 27, 1962. The amendment substitutes for the language "nonmember State banks" at the two places where it appears in section 210.2(a) of the Regulation the language "nonmember banks."

The first paragraph of section 13 of the Federal Reserve Act and section 201.1 of Regulation J use the language "nonmember bank" so that the amendment conforms section 210.2(a) of the Regulation to the provision of the statute and the other section of the Regulation just mentioned. 1/

Please arrange for the printing of the amendment to the Regulation and for such distribution thereof in your district as you believe to be desirable.

The amendment will be published in the Federal Register and the Federal Reserve Bulletin in the usual course, but no press release is being issued.

Very truly yours,

Merritt Sherman,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

1/ Reference in second line should have been section 210.1 of Regulation J.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 6
9/27/62



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

CABLE ADDRESS: "FEDRESERVE"

September 28, 1962

Mr. Alfred Hayes, President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Hayes:

This is in further reference to the question whether section 13 of the Federal Reserve Act should be regarded as precluding your Bank, in its discretion, from opening and maintaining a nonmember clearing account for the New York City branch of the Israel Discount Bank Limited, Tel Aviv, Israel. This matter was the subject of the Board's letter to you of July 13, 1962, and your Bank's letter to the Board of August 16, 1962.

It is understood that Israel Discount Bank is a commercial bank chartered under the laws of Israel; that the bank's New York City branch conducts a commercial banking business under a license issued pursuant to the Banking Law of New York; that much of the business of the branch would not appear to differ essentially from that of other commercial banks in the New York City area; and that, under the State law, the branch is subject to regulation and supervision comparable in important respects to that applicable to State-chartered banks.

The New York City branch of Israel Discount Bank, of course, would not be eligible for membership in the Federal Reserve System in view of the provisions of section 9 of the Federal Reserve Act limiting the types of institutions that may apply for membership. On the other hand, it is the Board's view that there is nothing in the Federal Reserve Act which would make it improper for a Federal Reserve Bank to regard a branch of a foreign bank, such as the one in question, as a "nonmember bank" within the meaning and for the purposes of the first paragraph of section 13 of the Act.

In the Board's view, a different result is required neither by the natural meaning of the language of section 13, nor by the definition in section 1, paragraph 2 of the Act, which provides that the word "bank" shall be held to "include" the specified institutions,

Mr. Alfred Hayes

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with certain exceptions. That definition stands in contrast to those in paragraph 3 of section 1 of the Act which provide that specified terms shall be held to "mean" certain things. That the term "non-member bank" in the first paragraph of section 13 does not exclude a branch such as the one in question finds additional support from the statutory scheme as gleaned from other parts of the Act. For example, in the 11th paragraph of section 19 of the Act, "foreign banks" are specifically excluded from the term "other banks," and the ninth paragraph of section 19 of the Act concerns itself with not only any "State bank or trust company which is not a member bank," but also any "non-member bank."

The provisions of section 13 of the Federal Reserve Act under consideration were added to the statute by the Act of June 21, 1917, and the legislative history of that measure contains language indicating that the amendment to section 13 made by that Act would extend certain privileges to nonmember State banks and trust companies. The Board believes, however, that this should not be deemed to require a narrower meaning for "nonmember bank" in the first paragraph of section 13 of the Act than that which the Board believes to be warranted, as indicated by the earlier discussion in this letter. Finally, as you know, branches in this country of a Canadian commercial bank have had nonmember clearing accounts with another Federal Reserve Bank since shortly after the 1917 amendment to the statute authorizing Reserve Banks to establish nonmember clearing accounts.

Of course, the establishment of nonmember clearing accounts under the provisions of the first paragraph of section 13 of the Federal Reserve Act is a matter within the discretion of the Federal Reserve Banks, as previously indicated. These provisions of the Act have always been regarded as permissive and not mandatory. (1917 Federal Reserve Bulletin, p. 617)

Your Bank's letter to the Board of August 16 relates that a review of the policy considerations involved has led you to conclude that it would be desirable for your Bank to open a nonmember clearing account for the New York City branch of Israel Discount Bank, assuming that there exists a legal means for doing so. For the reasons discussed above, the Board's view is that to do so would not be contrary to the statute. The Board would appreciate your pursuing this matter with Israel Discount Bank.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.