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Minutes for January 22, 1963

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


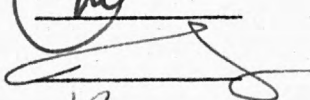

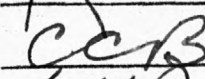
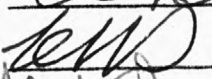
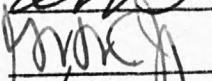
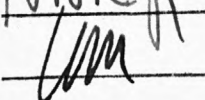
Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

Gov. Mitchell

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, January 22, 1963. 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. Mitchell

Mr. Sherman, Secretary
Miss Carmichael, 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. Farrell, Director, Division of Bank
Operations
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Daniels, Assistant Director, Division of
Bank Operations
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Doyle, Attorney, Legal Division
Mr. Reynolds, Chief, Special Studies and Operations
Section, Division of International Finance
Mr. Poundstone, Review Examiner, Division of
Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of Boston and Atlanta on January 21, 1963, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

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Items circulated to the Board. The following items, copies of which are attached under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to The First Bank of Boston International, New York, New York, approving an amendment to its Articles of Association changing its name to Bank of Boston International.	1
Letter to Bankers International Financing Company, Inc., New York, New York, granting consent to an increase in capital and approving an amendment to the Company's Articles of Association.	2
Letter to The Merchants and Farmers Bank, Smithfield, Virginia, interposing no objection to its retaining ownership of formerly occupied bank premises for a period expiring June 18, 1963.	3
Letter to Peoples State Bank of Maplewood, Maplewood, Missouri, approving an investment in bank premises.	4
Letter to the Federal Reserve Bank of Minneapolis authorizing the Bank to waive the assessment of a penalty incurred by First National Park Bank, Livingston, Montana, because of a deficiency in its required reserves.	5
Letter to Norfolk County Trust Company, Brookline, Massachusetts, approving the establishment of a branch in Bellingham.	6
Letter to Manufacturers Hanover Trust Company, New York, New York, approving the establishment of a branch at 799 Broadway, Borough of Manhattan, and noting the discontinuance of branch operations at 45 Fourth Avenue.	7

Report on competitive factors (Ithaca-Pompeii, Michigan). 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 The Commercial National Bank of Ithaca, Ithaca, Michigan, and The Pompeii State Bank, Pompeii, Michigan.

After a change in the wording of the conclusion of the report had been suggested by Governor Robertson and agreed upon, the report was approved unanimously for transmittal to the Comptroller of the Currency in a form in which the conclusion read as follows:

The proposed consolidation would combine the only banks in two small towns and would eliminate competition between the two institutions. No banking offices would be eliminated, and the transaction would not create an undesirable competitive situation.

Mr. Leavitt then withdrew from the meeting.

Request of Federal Trade Commission (Item No. 8). A memorandum from Mr. Noyes dated January 15, 1963, with reference to a request from the Federal Trade Commission for a special tabulation of department store sales data for use in connection with an investigation under the Clayton Act had been distributed. The request would involve compilation of an index of sales by the ten largest companies, which could be compared with the national index compiled and published at the Board.

The request from the Commission had been referred to the System Committee on Current Reporting Series, which had recommended that the tabulation not be furnished for several reasons. There had been some feeling among Reserve Bank personnel that compliance with the request would constitute a breach of faith with the reporting stores since it had

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been understood that the data were being collected for statistical purposes only. Also, the Reserve Banks had pointed to the difficulty in assembling the required information because of considerable changes in reporting samples over a period of time.

Attached to the memorandum was a draft of letter to the Federal Trade Commission that would decline to furnish the required compilations for reasons that were stated.

After a number of editorial changes had been suggested, the letter was approved unanimously in the form attached as Item No. 8.

Mr. Noyes, Director, Division of Research and Statistics, entered the room during the foregoing discussion and withdrew at its conclusion.

Bank Holding Company Act amendments. At the meeting of the Board on January 9, 1963, it was understood that the staff would prepare a revised draft of statement on recommendations for amending the Bank Holding Company Act of 1956, for inclusion in the 1962 Annual Report of the Board, and would study the legislative proposals made by Congressman Patman as the result of the recent chain banking survey, particularly from the standpoint of whether any of them should be mentioned in the Annual Report.

In line with that understanding, there had been distributed a memorandum from the Legal Division dated January 18, 1963, transmitting a revised draft of statement on proposed amendments to the Bank Holding Company Act. The memorandum referred to the recommendations made on the basis of the chain banking survey and suggested that it would not seem appropriate to mention them in the Annual Report.

The proposed statement would refer to the Board's special report submitted to the Congress on May 7, 1958, in which a number of amendments

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to the Bank Holding Company Act were recommended and would state that the Board believed those amendments (with the exception of recommendation 15, which had been withdrawn in the Board's 1960 Annual Report) merited early Congressional consideration and legislative action. The statement would emphasize the need for action along the following lines: (1) amendment of the Bank Holding Company Act to provide that a corporation would be subject to regulation as a bank holding company if it controlled 25 per cent or more of the stock of one bank; (2) amendment of the Act to eliminate the exemption of a company registered under the Investment Company Act of 1940 before May 15, 1955, and certain of its related corporations from provisions of the Bank Holding Company Act; (3) amendment or repeal of section 6 of the Act which prohibits intrasystem investments and extensions of credit by banks in holding company systems; and (4) repeal or modification of provisions of the Banking Act of 1933 with respect to holding company affiliates in order to eliminate confusion arising from the existence of two sets of laws relating to the same general subject but based on different definitions of what constitutes a holding company.

In commenting on the four specific recommendations in the proposed statement, Mr. Hexter pointed out that the first, recommending that the Act be amended to apply to one-bank cases, was one of the items specifically referred to in the draft bill transmitted by the Board to the Senate and House Banking and Currency Committees on April 25, 1962, with the recommendation that such a bill be introduced and enacted as promptly as possible.

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Mr. Hexter remarked that in the past the Board had advocated a number of other important amendments to the Bank Holding Company Act. However, because of their controversial nature, some of the amendments had not been referred to except in a general way in the proposed statement.

With reference to the second recommendation in the draft statement, relating to the exemption from provisions of the Act of a company regulated under the Investment Company Act, Governor Shepardson recalled that the Bank Holding Company Act also exempted from its provisions certain companies in the field of agriculture and also those operated for charitable, religious, or educational purposes. While these groups apparently were not creating any special problem in the administration of the Act, he believed that there should be some reference to them in the Annual Report statement.

Mr. Hexter stated that the draft of bill transmitted to the Senate and House Banking and Currency Committees with the Board's letters of April 25, 1962, had contained provisions that would eliminate the exemption of companies registered under the Investment Company Act as well as those operating in the field of agriculture and those operating for religious, charitable, or educational purposes. In the proposed statement only the one group had been mentioned in an effort to emphasize the importance of eliminating that particular exemption.

Governor Mills said he had the same question as Governor Shepardson with respect to the second recommendation. It seemed to him

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that by failing to mention all the groups specifically, the impression was given that the Board was concerned solely with Financial General Corporation. (A provision in section 2 of the Bank Holding Company Act had the effect of exempting from the requirements of the Act the Financial General Corporation, a corporation controlling, through subsidiary corporations, banks in a number of States and the District of Columbia.)

After further discussion, it was agreed to add a paragraph recommending specifically the repeal of the present provision in the Bank Holding Company Act that excluded from the Act's coverage certain agricultural companies and those operated exclusively for religious, charitable, or educational purposes.

Governor Mitchell asked whether Financial General Corporation had been expanding substantially, and Mr. Hexter replied in the affirmative. Governor Mitchell then raised a question as to whether some special reference to this fact should be included in the Annual Report statement.

It was brought out in the discussion that the undesirable effects of the exemption of a particular corporation from the limitations and restrictions applicable to bank holding companies generally had been called to the attention of the Senate and House Banking and Currency Committees in letters dated April 25, 1962.

Chairman Martin expressed the view that it seemed more dignified not to mention a particular company in the Board's Annual Report. On

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the other hand, it would seem appropriate to refer to the activities of Financial General Corporation in letters addressed to the Banking and Currency Committees.

After Governor Balderston had made several other suggestions for changes in the statement, it was approved unanimously for inclusion in the Board's 1962 Annual Report.

During the foregoing discussion Mr. Cardon, Legislative Counsel, entered the room and at its conclusion Mr. O'Connell withdrew from the meeting.

Regulation K. There had been distributed a memorandum from Governor Mitchell dated January 18, 1963, with reference to the current revision of Regulation K, Corporations Doing Foreign Banking or Other Foreign Financing Under the Federal Reserve Act. In order to expedite the revision, Governor Mitchell suggested in the memorandum that the Board first give consideration to several items that might be largely noncontroversial and then proceed to the sections on "Investments in Stock of Other Corporations" and "Limited Operations in the United States." In the memorandum, the items that Governor Mitchell considered to be generally noncontroversial were outlined, with appropriate page references to the edited draft of Regulation K that had previously been distributed.

Governor Mitchell commented briefly on the subject and summarized some of the changes that had been suggested. He expressed the view that the real crux of the issue was the section covering

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investments in stock of other corporations. He then suggested that the Board might wish to run through the edited draft of the regulation on a page-by-page basis.

There being agreement with this suggestion, Mr. Goodman proceeded to review the matters mentioned in Governor Mitchell's memorandum. After each of these items had been considered and a number of suggestions for changes had been made, the discussion turned to section 211.6, Limited Operations in the United States, and Mr. Goodman described the changes proposed in this section. Following discussion of these proposed changes, it was agreed that the draft of Regulation K would be revised further in the light of the suggestions that had been made at this meeting and that copies would be distributed. It was also understood that consideration would be given at the next meeting of the Board to the proposed revision of section 211.9, Investments in Stock of Other Corporations.

Messrs. Solomon, Shay, Goodman, Doyle, and Poundstone then withdrew from the meeting.

Proposed silver legislation (Item No. 9). Mr. Hackley reported that he had received a telephone call from Mr. J. E. Reeve of the Bureau of the Budget regarding a draft of letter from the Secretary of the Treasury to the President of the Senate proposing a draft of bill "To repeal certain legislation relating to the purchase of silver, and for other purposes."

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The proposed legislation was in line with a directive by the President of the United States to the Secretary of the Treasury on November 28, 1961, to suspend further sales of free silver and to suspend the use of free silver for coinage. The President also directed that silver to meet coinage needs be obtained by retiring \$5 and \$10 silver certificates. At the same time the President had stated that he would recommend to Congress the repeal of acts relating to the purchase of silver, as well as the provisions of law imposing a tax on the transfers of interest in silver bullion. In addition, the President had indicated that he would ask Congress to authorize the Federal Reserve Banks to issue Federal Reserve notes in denominations of one and two dollars.

Except for the addition of three new provisions, the new bill was substantially the same as a bill relating to the same subject (S.2885) on which the Board's views were set forth in a letter to the Bureau of the Budget dated February 5, 1962. Two of the new provisions related to tax matters and the third would provide as follows: "Unless the market price of silver exceeds its monetary value, the Secretary of the Treasury shall not dispose of any silver held or owned by the United States in excess of that required to be held as reserves against outstanding silver certificates, Provided That, any such excess silver may be sold to other departments and agencies of the government or used for the coinage of standard silver dollars and subsidiary silver coins."

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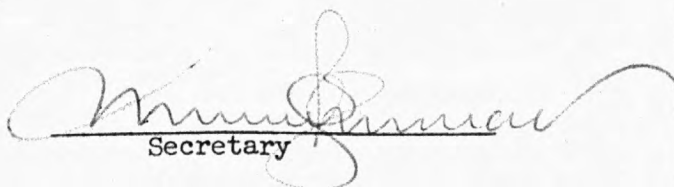
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Mr. Hackley stated that, if possible, the Bureau of the Budget would like to have the Board's views on the Treasury bill sometime later in the day, following which Mr. Farrell commented on the implications of the proposed bill.

During a general discussion of the terms and probable effects of the proposed legislation, Governor Mills stated that he continued to hold the views he had expressed earlier regarding proposed silver legislation. He believed that any legislation that would withdraw silver as the metallic base for a portion of the national currency would cause concern among some people who would look on that sort of a change as an abandonment of an accepted backing for currency.

After further discussion, and Governor Mills' views having been noted, approval was given to the sending of a letter to the Bureau of the Budget that would enclose a copy of the Board's letter of February 5, 1962, to the Bureau and indicate that the views expressed therein were equally applicable to the draft of proposed legislation, notwithstanding the additional provisions. A copy of the letter sent pursuant to this action is attached as Item No. 9.

The meeting then adjourned.


Secretary



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

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Item No. 1
1/22/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 22, 1963

Mr. George I. Emery,
Secretary,
The First Bank of Boston International,
Two Wall Street,
New York 5, New York.

Dear Mr. Emery:

This will acknowledge your letter of January 7, 1963, stating that your Corporation desires to change its name by deleting the words "The First" so that the name of the Corporation will read "Bank of Boston International" and enclosing a certificate of the Corporation with respect to a vote adopted at a special meeting of the stockholders of the Corporation held on January 7, 1963, amending Article First of the Articles of Association to change the name of the Corporation from "The First Bank of Boston International" to "Bank of Boston International."

In accordance with your request, the Board of Governors approves the amendment to your Articles of Association.

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
1/22/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



January 22, 1963

Bankers International
Financing Company, Inc.,
16 Wall Street,
New York 15, New York.

Gentlemen:

In accordance with the request contained in your letter of November 26, 1962, transmitted by the Federal Reserve Bank of New York, the Board of Governors grants consent for Bankers International Financing Company, Inc. to increase its authorized capital from \$2,000,000 to \$10,000,000, consisting of 500,000 shares of the par value of \$20 each.

Pursuant to Section 25(a) of the Federal Reserve Act, the Board approves the amendment to Article SEVENTH of the Articles of Association of your Corporation. It is understood that not less than \$5,000,000 of the \$10,000,000 authorized will be issued and fully paid in and that all outstanding shares will be fully paid. The Board of Governors hereby consents that the remainder of the capital stock of the Corporation may be paid in upon call from the Board of Directors of the Corporation, provided that the Board of Governors shall have approved each such increase in paid-in capital not more than ninety days prior to the date on which the increase is paid in.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 3
1/22/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



January 22, 1963

Board of Directors,
The Merchants and Farmers Bank,
Smithfield, Virginia.

Gentlemen:

The Board of Governors of the Federal Reserve System does not object to The Merchants and Farmers Bank retaining ownership of formerly occupied bank premises for a period expiring June 18, 1963, with the understanding that every effort will be made to dispose of the property within that time.

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. 4
1/22/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 22, 1963

Board of Directors,
Peoples State Bank of Maplewood,
Maplewood, Missouri.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an investment in bank premises by Peoples State Bank of Maplewood, Maplewood, Missouri, of \$170,000 for the purchase and improvement of property adjoining present bank premises.

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. 5
1/22/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 22, 1963

Mr. A. W. Mills, First Vice President,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota.

Dear Mr. Mills:

This refers to your letter of January 7 regarding the penalty of \$51.46 incurred by the First National Park Bank, Livingston, Montana, on a deficiency in its required reserves for the bi-weekly computation period ended December 12, 1962.

It is noted that: (1) credit for three cash letters totaling \$93,554.54, which should have been entered to the reserve account of the First National Park Bank on December 6, was erroneously entered by the Helena Branch to the account of another member bank; (2) the error was not discovered until it was brought to the attention of the Helena Branch on December 18 by the First National Park Bank, when the entries were reversed, causing the subject bank to be deficient in its required reserves for the above mentioned period; and (3) the subject bank reconciles its statements only once every two weeks which appears to be the common practice among the smaller banks in your district.

In the circumstances, the Board authorizes your Bank to waive assessment of the penalty of \$51.46 for the period ended December 12, 1962.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 6
1/22/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



January 22, 1963

Board of Directors,
Norfolk County Trust Company,
Brookline, Massachusetts.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Norfolk County Trust Company, Brookline, Massachusetts, at 2 South Main Street, Bellingham, Massachusetts, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 7
1/22/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



January 22, 1963

Board of Directors,
Manufacturers Hanover Trust Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch at 799 Broadway, Borough of Manhattan, New York, New York, by Manufacturers Hanover Trust Company, provided the branch is established within six months from the date of this letter.

It is understood that branch operations have been discontinued at 45 Fourth Avenue and will not be resumed at that location.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)



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

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Item No. 8
1/22/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 25, 1963.

Mr. Willard F. Mueller,
Director, Bureau of Economics,
Federal Trade Commission,
Washington 25, D. C.

Dear Mr. Mueller:

This is in further regard to your letter of October 22, 1962, and Mr. Noyes' acknowledgment of November 2, regarding a special tabulation of department store sales to be used by the Federal Trade Commission in connection with an investigation in the department store field involving amended Section 7 of the Clayton Act. The matter was first studied by a System research committee concerned with the operation of the department store program and then considered by the Board of Governors.

It has been concluded that compliance with the request would constitute a breach of faith with the reporting stores since it has been understood that the data were being collected for statistical purposes only, and not for any regulatory purpose. Additionally, there would be considerable difficulty in assembling the required information because of the substantial change in reporting samples over a period of time. Some stores have gone out of existence, some have stopped reporting but continued in business, and some new stores have been added. Mergers between reporters and between reporters and nonreporters further complicate the problem of obtaining company data as distinct from individual store data.

Accordingly, for the reasons indicated, the Board regrets that it is not in a position to comply with your request for the special tabulation.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 9
1/22/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 22, 1963



Mr. Phillip S. Hughes,
Assistant Director for
Legislative Reference,
Bureau of the Budget,
Washington 25, D. C.

Attention of Mr. J. E. Reeve

Dear Sir:

This refers to Mr. Reeve's transmittal on January 21, 1963, of a draft of letter from the Secretary of the Treasury to the President of the Senate proposing a draft bill "To repeal certain legislation relating to the purchase of silver, and for other purposes". The draft bill appears to be substantially the same as a bill relating to this matter, S. 2885, that was introduced in the last session of Congress, except for the addition of three new provisions as described on page 3 of the draft letter from the Secretary of the Treasury.

The Board's views regarding S. 2885 were set forth in a letter to your office dated February 5, 1962, a copy of which is enclosed for your convenient reference. Those views are equally applicable to the draft of proposed legislation transmitted to the Board by Mr. Reeve on January 21, 1963, notwithstanding the additional provisions now proposed.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure