

FR 609
Rev. 9/61

Minutes for April 10, 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

W

Gov. Mills

[Handwritten signature]

Gov. Robertson

Gov. Balderston

CCB

Gov. Shepardson

CSO

Gov. King

[Handwritten initials]

Gov. Mitchell

[Handwritten initials]

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, April 10, 1963. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Shay, Assistant General Counsel
Mr. Sammons, Adviser, Division of International Finance
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Mattras, General Assistant, Office of the Secretary
Mr. Hill, Attorney, Legal Division

Report on competitive factors (Adairville, Kentucky). There had been distributed a draft of report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed acquisition of assets and assumption of liabilities of The Peoples Bank, Adairville, Kentucky, by Adairville Banking Company, Adairville, Kentucky.

After discussion, the report was approved unanimously for transmission to the Corporation with the understanding that the conclusion would be modified to read as follows:

4/10/63

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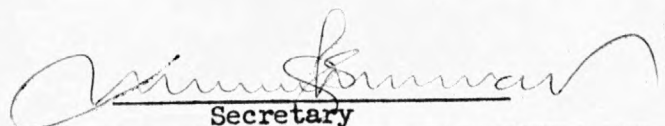
The proposed acquisition of assets and assumption of liabilities of Peoples by Applicant would eliminate existing competition between the two local institutions. However, the community of Adairville is quite small as evidenced by the fact that the two banks located there have combined deposits of only \$1.4 million. Consummation of the proposal would result in a bank whose increased resources would permit it to improve services in Adairville and to compete more effectively with the larger banks in Russellville, Kentucky, and Springfield, Tennessee.

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

	<u>Item No.</u>
Letter to the Center for Latin American Monetary Studies regarding the designation of James K. Nettles as lecturer in the eleventh regular training program of the Center to be held in Mexico City, Mexico, in 1963.	1
Letter to the Presidents of all Federal Reserve Banks revoking the request that the Board be advised in advance of the proposed acquisition of costly electronic equipment at the Banks and branches.	2
Letter to the Federal Reserve Bank of Philadelphia regarding the eligibility of an individual who is president and director of a small business investment company that is a wholly-owned subsidiary of a member bank to serve at the same time as a director of two open-end investment companies.	3

In connection with Item No. 1, the Board authorized Mr. Nettles to travel to Mexico City for approximately one week beginning July 27, 1963, with per diem allowed in accordance with the standardized Government travel regulations.

The meeting then adjourned.


Secretary

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

Item No. 1
4/10/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 10, 1963

AIR MAIL

Mr. Fernando Rivera,
Assistant Director,
Center for Latin American Monetary Studies,
San Juan de Letran No. 2 - Piso 32,
Mexico 1, D. F.

Dear Mr. Rivera:

This is in reply to your letter of March 26 requesting that the Board of Governors furnish a lecturer to participate in the eleventh regular training program of the Center for Latin American Monetary Studies.

The Board has designated Mr. James K. Nettles, Economist, Division of International Finance, for this assignment. He will be available to give three lectures during the week of July 28 on the general subject "Current Monetary Developments in the United States."

The Board of Governors is pleased to continue its cooperation with the Center for Latin American Monetary Studies in this way.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 2
4/10/63
S-1868

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 10, 1963.

Dear Sir:

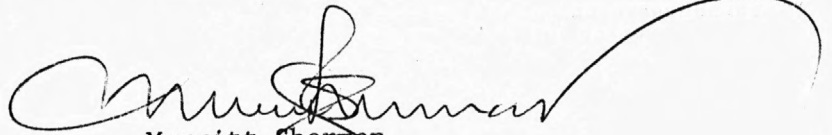
In its letter of November 16, 1961, (S-1816) the Board requested that it be advised specifically before any Reserve Bank made a firm commitment for the acquisition of any unit or system of office equipment having a purchase price of as much as \$50,000 or a rental cost of as much as \$4,000 per month. At that time this arrangement was felt to be desirable because of a belief that neither the budget nor functional expense reporting procedures were adequate to provide the Board with sufficient information concerning contemplated acquisitions of costly electronic equipment.

Since 1961, however, the budgets have been changed from an annual to a semiannual basis; the functional expense reports have been expanded to show in each function all of the important costs applicable thereto; all of the Reserve Banks now have data-processing computers, and all of them have also received the Board's approval to acquire at least one unit of electronic check-processing equipment; and the economic feasibility of selected applications of electronic equipment has been demonstrated and the Banks have gained considerable experience in this field. In the light of these developments the Board is now of the opinion that there is no longer any necessity for it to be advised before commitments are made to acquire any office equipment.

Accordingly, special advice of contemplated office equipment acquisitions, as requested in the Board's letter of November 16, 1961, may be discontinued. In the future the Board will rely on the budget reports for information concerning contemplated acquisitions of major units of office equipment, and on the functional expense reports for information with respect to the effectiveness of the use of such equipment. As indicated in its earlier letter, the Board believes that the primary responsibility for decisions concerning the use of electronic equipment rests with the management of each Reserve Bank, and it assumes that careful attention will continue to be given to such matters.

For the reasons set forth above, the Board's letter of November 16, 1961 (S-1816), is revoked.

Very truly yours,

A large, elegant handwritten signature in cursive script, which appears to read "Merritt Sherman". The signature is written in dark ink and extends across the width of the page.

Merritt Sherman,
Secretary.


TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Item No. 3
4/10/63BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 10, 1963



Mr. Karl R. Bopp, President,
Federal Reserve Bank of Philadelphia,
Philadelphia 1, Pennsylvania.

Dear Mr. Bopp:

The Board has received a letter of March 6, 1963, from A. Stuard Young, Jr., Esq., of the Philadelphia law firm of Stradley, Ronon, Stevens, and Young. In this letter Mr. Young inquired whether an individual who is president and a director of a small business investment company, which is a wholly-owned subsidiary of a member bank, would be eligible to serve at the same time as a director of two open-end investment companies in view of the prohibition of section 32 of the Banking Act of 1933, as amended.

Section 32 prohibits an officer, director, or employee of a corporation primarily engaged in the securities business as described therein from serving at the same time as an officer, director, or employee of a member bank. As the Board has uniformly regarded open-end investment companies as primarily engaged in business of a kind covered by the statute, the question is whether the individual concerned should be regarded as an officer, director, or employee of the member bank which owns all the stock of the small business investment company.

A copy of Mr. Young's letter was sent to Mr. Murdoch Goodwin, General Counsel of your Bank, who consulted with Mr. Young. Mr. Goodwin has forwarded letters of March 19 and March 26 from Mr. Young, who undertook to clarify certain aspects of the situation. In a letter of March 20, Mr. Goodwin expressed the opinion that no violation of section 32 of the Banking Act of 1933 would result if the individual concerned were to serve in the dual capacities indicated above.

From the information that has been submitted, it is understood that, prior to his becoming associated with the small business investment company, the individual concerned was an officer of the member bank. Because of his former position with the bank, he retains his interest

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. Karl R. Bopp

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in the pension fund provided by the bank for the retirement security of its employees, and he will receive payments therefrom in accordance with the provisions of the pension trust relating to employees who separate from service with the bank prior to retirement and become employees of subsidiaries of the bank.

It is understood also that the small business investment company involved is a licensee under the Small Business Investment Act of 1958, as amended (15 U.S.C., 661 et seq.), and that as a licensee it is authorized to engage only in the activities set forth in the statute, namely, to provide capital and long-term loans to small business concerns. The Small Business Investment Act of 1958 authorizes a member bank to invest not more than two per cent of its capital stock and surplus in the shares of a company licensed under the Act, such as the one in question.

The names of the small business investment company and of the member bank in question are understood to bear a definite identity with each other, and the offices of the corporation and certain offices of the bank are located on the same floor of a Philadelphia office building which also houses one of the principal banking offices of the member bank. This building, however, is said to house several outside tenants, as well, and it is indicated by Mr. Young that confusion of the small business investment company with the bank would not be likely, that the operations of the member bank and company are separate and distinct, and that the individual concerned acts only in his capacity as officer and director of the small business investment company.

On the basis of the foregoing and of its understanding of the information submitted, the Board is not inclined to regard section 32 as prohibiting the proposed relationship as described by Mr. Young. However, if the proposed interlocking relationship should be consummated, the question should be again presented for review if circumstances different in any material respect from those outlined herein should develop.

It would be appreciated if you would convey to Mr. Young the substance of the views set forth herein.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.