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Minutes for April 12, 1963



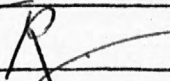
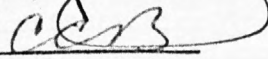
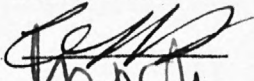

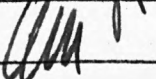
To: Members of the Board

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	<u></u>
Gov. Mills	<u></u>
Gov. Robertson	<u></u>
Gov. Balderston	<u></u>
Gov. Shepardson	<u></u>
Gov. King	<u></u>
Gov. Mitchell	<u></u>

Minutes of the Board of Governors of the Federal Reserve System on Friday, April 12, 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  
Mr. Kenyon, Assistant Secretary  
Mr. Fauver, Assistant to the Board  
Mr. Noyes, Director, Division of Research and Statistics  
Mr. Solomon, Director, Division of Examinations  
Mr. Koch, Associate Director, Division of Research and Statistics  
Mr. Brill, Adviser, Division of Research and Statistics  
Mr. Holland, Adviser, Division of Research and Statistics  
Mr. Solomon, Associate Adviser, Division of Research and Statistics  
Mr. Furth, Adviser, Division of International Finance  
Mr. Hersey, Adviser, Division of International Finance  
Mr. Mattras, General Assistant, Office of the Secretary  
Mr. Yager, Chief, Government Finance Section, Division of Research and Statistics  
Mr. Keir, Senior Economist, Division of Research and Statistics  
Miss. Dingle, Senior Economist, Division of Research and Statistics  
Mr. Gemmill, Economist, Division of International Finance

Money market review. There were distributed tables on the results of this year's two Treasury bond auctions and charts on public holdings

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of marketable Federal debt, together with a summary of recent monetary developments. Mr. Keir reported on recent developments in the Government securities market, with particular reference to the most recent bond auction, after which Mr. Eckert discussed changes in bank reserves and bank credit. Mr. Gemmill then reported on foreign exchange developments and the balance of payments.

All members of the staff then withdrew except Messrs. Sherman, Kenyon, Fauver, Noyes, Solomon (Examinations), Koch, Holland, and Mattras and the following entered the room:

Mr. Molony, Assistant to the Board  
Mr. Cardon, Legislative Counsel  
Mr. Hackley, General Counsel  
Mr. Farrell, Director, Division of  
Bank Operations  
Mr. Hexter, Assistant General Counsel  
Mr. O'Connell, Assistant General Counsel  
Mr. Shay, Assistant General Counsel  
Mr. Dembitz, Associate Adviser, Division  
of Research and Statistics  
Mr. Conkling, Assistant Director, Division  
of Bank Operations  
Mr. Daniels, Assistant Director, Division  
of Bank Operations  
Mr. Kiley, Assistant Director, Division of  
Bank Operations  
Mr. Goodman, Assistant Director, Division  
of Examinations  
Mr. Leavitt, Assistant Director, Division  
of Examinations  
Mr. Thompson, Assistant Director, Division  
of Examinations  
Miss Hart, Senior Attorney, Legal Division  
Mr. Potter, Senior Attorney, Legal Division  
Mr. Hill, Attorney, Legal Division  
Mr. Smith, Senior Economist, Division of  
Research and Statistics

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Mr. Flechsig, Economist, Division of Research  
and Statistics

Mr. Grove, Economist, Division of Research  
and Statistics

Discount rates. The establishment without change by the Federal Reserve Banks of Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas on April 11, 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.

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 International Banking Corporation, New York, New York, granting consent to the establishment of a branch at Nimba, Liberia, by The Bank of Monrovia, Monrovia, Liberia.	1
Letter to Merchants & Farmers Bank, Columbus, Mississippi, approving the establishment of a branch at 116 13th Street North.	2

Bank holding company data. There had been distributed a memorandum from the Division of Examinations dated April 11, 1963, with regard to a verbal request from the staff of the House Banking and Currency Committee for unpublished information with respect to the direct or indirect ownership or control of shares of banks by registered bank holding companies and by Financial General Corporation, Washington, D. C.,

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where the shares so owned or controlled were less than 25 per cent of total shares outstanding.

After discussion, the Board interposed no objection to the transmittal of the requested data. It was understood that if requests for similar information should be made by other parties, they were likewise to be brought to the Board for consideration.

Messrs. O'Connell and Conkling then withdrew from the meeting.

Application of Norfolk County Trust Company. During the discussion at the meeting on April 9, 1963, of the application of Norfolk County Trust Company, Brookline, Massachusetts, to consolidate with Wellesley Trust Company, Wellesley, Massachusetts, a question was raised with regard to stockholdings by First National Bank of Boston in Baystate Corporation, a holding company that held the majority of the stock of the Norfolk County bank. It was the understanding of the staff that the stock of Baystate held by First National was for the most part held in a fiduciary capacity. Subsequent to the meeting, however, the Examinations Division reviewed this point and determined that First National owned directly 13.4 per cent of Baystate's outstanding stock. This information was set forth in a memorandum from the Division dated April 10, 1963, which had been distributed to the Board.

Mr. Leavitt commented on the memorandum and also reviewed additional information supplied by Vice President Hoyle of the Federal Reserve Bank of Boston. It had now been ascertained from the report of examination

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of Baystate Corporation as of February 2, 1962, that the percentages of the shares of Baystate controlled by First National Bank of Boston were as follows: owned directly: 13.4 per cent; held in a fiduciary capacity: .9 per cent; held by Old Colony Trust Company (the stock of which was trusteeed for the benefit of shareholders of First National Bank): 1.3 per cent. According to Mr. Hoyle, however, there was no indication that First National attempted to dominate the management policies of Baystate.

Although subsidiary banks of Baystate maintained a correspondent relationship with First National, it was noted that First National was the largest bank in the State of Massachusetts and was actively engaged in correspondent banking. (A memorandum from Mr. Leavitt covering in detail the additional information that he described at this meeting has been placed in the Board's files.)

In the discussion that ensued, Governor Mitchell stated that in view of the correction of the information previously supplied with regard to the stockholdings of First National in Baystate Corporation, he wished to have his vote in favor of approval of the Norfolk County Trust application changed to a dissent. Governor Mitchell expressed the feeling that the corrected information had a material bearing on the application; it established a link with First National that was close enough to cause him to feel that the Norfolk County-Wellesley Trust merger would not be in the public interest.

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Governor Robertson, who had originally dissented from the majority decision to approve the merger application, stated that he had requested that the matter be brought back to the Board in the light of the April 10 memorandum. He felt it was desirable for the record to show that the Board had complete data before it as a basis for action, even though it developed that there was no change in the Board's original decision.

Governor Robertson noted that all subsidiaries of Baystate Corporation were correspondents of First National. He felt that this, together with the significant stockholdings of First National in Baystate, established a relationship which made it unlikely that the subsidiaries would do anything that would cause First National to shift its voting power against Baystate. This relationship, even if it did not amount to actual control, was indicative to him of a close link between the largest bank in Massachusetts, a large bank holding company, and Norfolk County Trust Company, which emphasized the proposed merger as another step toward concentration of banking power in the State. The circumstances should not be disregarded in considering the merger application itself. They constituted an additional factor for his dissenting from approval of the Norfolk County application.

At this point Chairman Martin raised a question from the procedural standpoint and turned to Mr. Hackley, who said that while he recognized it might be undesirable as a general practice to reverse votes on an application of this kind, it was his view from a legal standpoint that any member of the Board was entitled to change his vote at any time prior to the

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issuance of an order announcing the Board's decision, particularly when additional relevant material had been introduced after the original vote was taken. In a further comment, Mr. Hackley pointed out that the procedural aspects of the decision-making process in connection with bank merger and bank holding company cases had been discussed at length by the Board in the latter part of 1961, following which the conclusions of the Board at that time were embodied in a statement dated November 1, 1961, prepared for use within the Board's organization, covering the internal Board procedures with respect to holding company and merger applications. It was agreed at that time that after a case had been presented to the Board a vote would be taken, following which the staff would prepare an order and statement for the Board's consideration. The order was to be dated as of the actual date of issuance and not as of the date the vote was taken. He had always felt, Mr. Hackley said, that until the order was issued all procedures were of an internal nature, and the Board, if it wished, could reconsider any particular application. After the order was issued, the situation was entirely different. The applicant or opponents could then request reconsideration under the Board's published Rules of Procedure or could seek judicial review of the decision.

Mr. Hackley also commented on a practical difficulty that was sometimes involved, namely, that the composition of the Board on the date when the issuance of an order was authorized might differ from the composition of the Board on the date when the merits of the case were discussed



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and a vote was taken. This difficulty had been recognized in the Board's internal rules by stating that in the Board's orders the attendance would be shown as of the date on which the case was discussed and a vote taken. Mr. Hackley indicated that he saw a distinction between simply changing one's mind after the vote was taken and requesting that a case be reopened on the basis of the submission of additional relevant information. The latter circumstance might, in his opinion, warrant a request by a Board member for reconsideration of the case before the Board's decision was announced, whereas a capricious request for the reopening of a case would not be warranted. The Board might be vulnerable to criticism, he thought, if its records showed that new and relevant information had been submitted after a case was first voted upon, but that the Board did not reconsider the case in the light of such information before announcing its decision.

There followed a rather extended discussion during which reference was made to the various decision-making procedures that had been followed by the Board at times in the past, including the issuance of tentative decisions, the reasons that had favored adoption of the existing procedure, and the possibility of changes in such procedure.

Comments by Chairman Martin were to the effect that in his opinion the Board should be cautious about reopening cases and changing votes. At some point it must be presumed that sufficient data had been presented to enable the Board to reach a decision and, according to the Board's internal rules, a vote was to be taken at that point. Under the present procedure

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a period was then provided to allow the staff to prepare a statement reflecting the decision reached by the Board; some period of time necessarily elapsed before the statement reflecting the decision was ready to be issued. However, if the procedure followed by the Board called for announcing the decision as soon as the vote had been taken, there would be no opportunity, except publicly, to reconsider the decision. According to this line of reasoning, it seemed to the Chairman that there were hazards involved in reopening a case, without public knowledge, after a decision had been reached but prior to the time the Board's order was issued. In exploring the implications of the matter, he noted that the problem became more complicated by the possibility of a change in the composition of the Board after a vote was taken, thus making it conceivable that by reopening cases the decisions of the Board could be reversed due to differences in attendance. The Chairman emphasized that his concern went to the principles involved.

Views expressed by other members of the Board indicated general agreement that it would be unwise, absent unusual circumstances, for changed opinions to be registered after a case had been discussed and a vote taken. However, a distinction was seen between the normal situation and one in which additional relevant information was submitted after the taking of the original vote. It was suggested that in such circumstances reconsideration of an application before the Board's order was issued would seem preferable to proceeding in a manner that would fail to take into account the full

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scope of the data available to the Board. As to the instant case, it was the consensus that the minute record should be reflective of the circumstances that had transpired, but that there seemed to be no compelling reason why these developments, as they had occurred, should be made a matter of public record.

At the conclusion of this discussion, Chairman Martin called for a new vote on the Norfolk County-Wellesley Trust application on the basis of all pertinent information now available, including the additional information that had been supplied by the Division of Examinations.

Governor Mills stated that he did not regard the corrected information as sufficiently significant to alter his vote favoring approval. He did not minimize the relationship between First National and Baystate. However, other factors were persuasive enough to him to justify approval of the application.

Governor Robertson reiterated his previous vote to deny, adding that in his view the case for denial had been made even stronger by the introduction of the additional information.

Governor Shepardson said that he agreed with the original decision. The new facts, in his opinion, failed to substantiate that First National exercised domination over Baystate Corporation. The correspondent relationship between First National and the subsidiary banks of Baystate was not surprising to him considering the role of First National as the largest bank in the State of Massachusetts.

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Governor Mitchell stated that, as he had indicated previously, he would now vote to deny the application.

Governor Balderston and Chairman Martin reiterated their original votes to approve the application.

Accordingly, the application of Norfolk County Trust Company, Brookline, Massachusetts, to consolidate with Wellesley Trust Company, Wellesley, Massachusetts, was approved, Governors Robertson and Mitchell dissenting, with the understanding that the staff would prepare an order and majority statement for the Board's consideration and that a dissenting statement also would be prepared.

Mr. Hill then withdrew from the meeting.

Special study of Chemical Bank application. Pursuant to the understanding at the Board meeting on February 4, 1963, the staff had prepared plans, in cooperation with the Federal Reserve Bank of New York, to make a survey of business firms in the four-town service area involved in the proposed merger of Chemical Bank New York Trust Company and Bank of Rockville Centre Trust Company, Rockville Centre, New York. In a memorandum dated April 11, 1963, which had been distributed, the staff proposed that the survey be postponed until after the case was decided.

According to the memorandum, Chemical Bank had been advised of the survey and had reserved the right to challenge both the survey design and its results. From a legal standpoint, therefore, the survey would provide Chemical with an additional issue to raise on appeal if the Board should render an adverse decision in the case. The memorandum also noted

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that the Bureau of the Budget had given a qualified approval of the questionnaire, limiting it to a one-time experimental operation. The staff suggested that in the circumstances the survey technique intended for use in this case might be experimented with on a post-decision basis, thus avoiding possible legal consequences and at the same time testing the value of the technique for use in the future.

In discussion of the matter, Governor Shepardson recalled the circumstances in which the proposed investigative procedure had been suggested and outlined the developments that had made it seem desirable to bring the matter back to the Board for further consideration at this stage. Mr. Holland described in somewhat more detail the developments that had occurred, and Mr. Shay described pertinent legal considerations.

The views expressed by members of the Board were to the effect that the results of utilizing the proposed procedure might not be too significant to the determination of this particular application. In view of what had transpired, it appeared to be the general feeling that a survey of the kind that had been contemplated should not be conducted. At the same time, an opinion was expressed that investigations along such lines might be helpful to the Board in the determination of certain types of applications in the future; and that accordingly the staff should give further consideration to possible modification of the proposed procedure and experimentation therewith. The point was made that it had been a common practice for bank supervisory authorities to make field investigations pertaining

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to applications and that no questions had been raised from the standpoint of Governmental survey requirements. This suggested that a remodeling of the approach that had been proposed for use in this instance might eliminate difficulties of the kind that had been encountered.

With specific reference to the proposed survey in connection with the Chemical application, Chairman Martin suggested that in the circumstances the matter be tabled, and there was agreement with this suggestion.

Messrs. Shay, Koch, Holland, Smith, Flechsig, and Grove then withdrew from the meeting.

Method of transportation of new Federal Reserve notes. At the meeting of the Board on January 9, 1963, consideration had been given to a question raised by the Committee on Miscellaneous Operations of the Conference of Presidents of the Federal Reserve Banks concerning the method of shipment of new Federal Reserve notes from Washington. The Committee had been authorized by the Conference to explore, in appropriate manner, a proposal from Brink's, Incorporated, involving shipment of such notes by a combination of air and truck transportation. Before proceeding further, however, the Committee desired an indication as to whether the Board would have objection in principle to the use of air-truck transportation rather than registered mail. The Board had concluded that it would be desirable to obtain the views of the Treasury at the policy level, after which the views of the Post Office might likewise be obtained, and it was understood that Chairman Martin would discuss the matter with the Treasury.

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At the meeting on March 6, 1963, the Chairman reported that he had had certain conversations about the matter and that he would report further in the near future.

Chairman Martin now stated that the Treasury would be completely agreeable if the Federal Reserve wished to enter into negotiations looking toward the use of air-truck transportation. He recalled that in previous discussion Governor Mills had expressed some reservations about departing from the use of registered mail. It had also been suggested earlier that Governor Mitchell check with the Postmaster General, after the Treasury position was ascertained, to confirm his understanding that the latter would have no objection.

In discussion, Governor Mills clarified his position by saying that he questioned the wisdom of utilizing air or truck transportation for new Federal Reserve notes rather than registered mail, but that he would not take an adamant position against it.

Accordingly, it was understood that Governor Mitchell would check again to ascertain the current views of the Postmaster General. Subject to the completion of this further check by Governor Mitchell, it was understood that advice would be given to the Chairman of the Committee on Miscellaneous Operations that the Board would not object in principle to an arrangement for the transportation of new Federal Reserve notes by means other than registered mail.

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All of the members of the staff then withdrew and the Board went into executive session.

Request for services of Mr. Reynolds (Item No. 3). The Secretary was informed later by Governor Shepardson that during the executive session the Board gave consideration to a memorandum dated April 11, 1963, from Mr. Sammons, Adviser, Division of International Finance, regarding a request from the Bureau of the Budget, by letter dated April 10, 1963, that the services of John E. Reynolds, Chief, Special Studies and Operations Section, Division of International Finance, be made available to the Bureau for a period of time up to one year in order that Mr. Reynolds might serve as staff director for a special committee being established to review the balance of payments statistics of the United States and to make recommendations for the improvement of that statistical series. The memorandum recommended that the services of Mr. Reynolds be made available for this purpose, with reimbursement to the Board for Mr. Reynolds' salary and related expenses.

The recommendation contained in Mr. Sammons' memorandum was approved. A copy of the letter sent to the Bureau of the Budget in accordance with this action is attached as Item No. 3.

The meeting then adjourned.

Secretary's Notes: On April 11, 1963  
Governor Shepardson approved on behalf  
of the Board the following items:



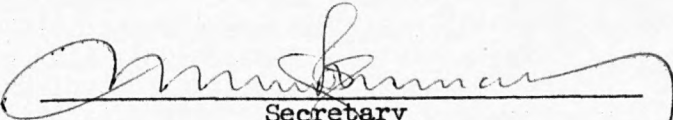
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Memorandum dated April 9, 1963, from Mr. Young, Adviser to the Board and Director, Division of International Finance, recommending that a new position with the title of Economist be established in the Asia, Africa, and Latin America Section of the Division of International Finance, and that a new position with the title of Economist be established in the Special Studies and Operations Section of that Division.

Letter to the Federal Reserve Bank of Cleveland (attached Item No. 4) approving the appointment of John J. Prior as assistant examiner.

Governor Shepardson today approved on behalf of the Board a memorandum dated April 11, 1963, from Mr. Solomon, Director, Division of Examinations, requesting permission to deliver a lecture on bank capital during the August 1963 session of the School of Banking at the University of Wisconsin, Madison, Wisconsin, with the understanding that the lecture would be delivered by Mr. Solomon while on annual leave and that he would accept compensation from the school.

  
Secretary

Item No. 1

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

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 12, 1963

International Banking Corporation,  
399 Park Avenue,  
New York 22, New York.

Gentlemen:

In accordance with the request and on the basis of the information furnished in your letter of March 19, 1963, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants its consent to the establishment of a branch at Nimba, Republic of Liberia, by The Bank of Monrovia, Monrovia, Liberia.

Unless the branch is actually established and opened for business on or before April 1, 1964, all rights granted hereby will be deemed to have been abandoned and the authority hereby granted will automatically terminate on that date.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the branch is opened for business, furnishing information as to the exact location of the branch.

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. 2  
4/12/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 12, 1963

Board of Directors,  
Merchants & Farmers Bank,  
Columbus, Mississippi.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch at 116 13th Street North, in Columbus, Mississippi, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
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.)

Item No. 3  
4/12/63

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

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 12, 1963



Mr. Raymond T. Bowman,  
Assistant Director for  
Statistical Standards,  
Bureau of the Budget,  
Executive Office of the President,  
Washington 25, D. C.

Dear Mr. Bowman:

This is in reply to your letter of April 10 to Mr. Ralph A. Young requesting that the Board of Governors make Mr. John E. Reynolds available for a period of time up to one year to serve as staff director for a proposed committee to review balance-of-payments statistics. The Board of Governors has approved this proposal, on the basis of a reimbursable detail. It is suggested that the appropriate officer of your agency contact Mr. H. F. Sprecher, Assistant Director of the Board's Division of Personnel Administration, to make the necessary arrangements.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman".

Merritt Sherman,  
Secretary.



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

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Item No. 4  
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ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 12, 1963

AIR MAIL

Mr. Paul C. Stetzelberger, Vice President,  
Federal Reserve Bank of Cleveland,  
Cleveland 1, Ohio.

Dear Mr. Stetzelberger:

In accordance with the request contained in your letter of April 5, 1963, the Board approves the appointment of John J. Prior as an assistant examiner for the Federal Reserve Bank of Cleveland. Please advise effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.