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Minutes for May 20, 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>M</u>
Gov. Mills	<u>[Signature]</u>
Gov. Robertson	<u>R</u>
Gov. Balderston	<u>CCB</u>
Gov. Shepardson	<u>[Signature]</u>
Gov. King	<u>[Signature]</u>
Gov. Mitchell	<u>[Signature]</u>

Minutes of the Board of Governors of the Federal Reserve System on Monday, May 20, 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. Young, Adviser to the Board and Director, Division of International Finance
 Mr. Fauver, Assistant to the Board
 Mr. Hackley, General Counsel
 Mr. Solomon, Director, Division of Examinations
 Mr. O'Connell, Assistant General Counsel
 Mr. Shay, Assistant General Counsel
 Mr. Leavitt, Assistant Director, Division of Examinations
 Mr. Mattras, General Assistant, Office of the Secretary
 Mr. Hricko, Senior Attorney, Legal Division
 Mr. Doyle, Attorney, Legal Division
 Mr. Sanford, Review Examiner, Division of Examinations

Circulated item. The following item, a copy of which is attached to these minutes as Item No. 1, was approved unanimously:

Letter to Central Trust Company Rochester, N. Y., Rochester, New York, approving the establishment of a branch in the terminal building of Rochester Monroe County Airport.

Application of Bank of Virginia. There had been distributed a memorandum from the Division of Examinations dated May 15, 1963, along with other pertinent papers, relating to the application of The Bank of Virginia, Richmond, Virginia, to merge with The Farmers Bank of Dinwiddie, Dinwiddie, Virginia. The Division of Examinations recommended approval.

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Mr. Leavitt summarized the application, basing his comments essentially on the information contained in the memorandum. He noted the low capital position of Bank of Virginia and stated that this situation was expected to improve somewhat by September 1, 1963, through the planned sale of \$1,500,000 of additional capital stock of the bank to its parent holding company, Virginia Commonwealth Corporation. Virginia Commonwealth had already received a loan commitment from First National City Bank, New York, New York, to finance the purchase of such shares. Although the capital position of Bank of Virginia would remain low even after the sale of the additional stock, the Examinations Division felt that denial of the merger on this ground would not be justified, particularly in view of the positive factors such as the prospect for solution of the management succession problem of the Dinwiddie bank and the broader range of banking services that would be provided in the Dinwiddie area. Mr. Leavitt expressed the feeling, however, that some comment with respect to the low capital position of Bank of Virginia should be included in the transmittal letter to that bank if the merger were approved.

Governor Mitchell stated that he regarded the capital position of Bank of Virginia to be unsatisfactory and that he did not look with favor at the manner in which the parent company, Virginia Commonwealth Corporation, proposed to raise money for the purchase of the additional capital stock which Bank of Virginia proposed to issue. As a general proposition, he felt that a loan arrangement for the purchase of stock

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along lines agreed upon between Virginia Commonwealth and First National City Bank of New York could cause complications, particularly if it contained a callable feature, and he suggested that perhaps the Board should discourage such a practice.

Mr. Solomon noted that the loan to Virginia Commonwealth did not include a callable feature and expressed the opinion that the depositors of Bank of Virginia were fully protected under the arrangement. Mr. Solomon said that the low capital position of Bank of Virginia should be corrected, but he would not regard the bank as poorly managed.

Governor Mills stated that he had the impression that the management of Bank of Virginia was well regarded by the Federal Reserve Bank of Richmond. He felt that the capital position problem of Bank of Virginia could be approached as suggested by the Examinations Division and, in view of the good over-all financial position of Virginia Commonwealth, he did not believe the Board should draw a line at this point with regard to the manner in which the parent company had chosen to inject additional capital into Bank of Virginia. Governor Mills noted that the Board had authority to control the activities of the parent holding company and could prevent any future action which might be inconsistent with sound principles. On the facts of the present case, however, he would approve the application.

Governor Robertson stated that he would approve the application in view of the small size of the Dinwiddie bank, but that he regarded this a borderline case. He questioned the method of financing chosen by

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Virginia Commonwealth to inject new capital into Bank of Virginia, but he did not feel this warranted rejecting the application. He suggested that the Division of Examinations make a separate study of the capital requirements of all banks in the Virginia Commonwealth group and of the ability of the holding company to provide needed capital. He also felt that the Board should insist on a capital position adequate in relation to Bank of Virginia's responsibilities. Governor Robertson added that failure to correct the capital position of Bank of Virginia should be a consideration in any future requests for expansion by Virginia Commonwealth.

Governor Shepardson said that he would approve the application as recommended by the Examinations Division, based on the feeling that the Dinwiddie bank might not be meeting adequately the increasing credit needs of the surrounding agricultural area.

Governor Mitchell stated that he would approve the application with the record showing the reservations he had expressed on the capital adequacy problem of Bank of Virginia.

Governor Balderston and Chairman Martin also indicated that they would approve the application. The Chairman agreed that a study along the lines suggested by Governor Robertson would be useful.

Mr. Shay raised the question whether the Board might wish to indicate in the transmittal letter to the applicant bank that approval of the application should not be regarded as approval of the bank's low capital structure. He noted that there was precedent for including such a paragraph in the letter approving the merger.

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After further discussion, the application of The Bank of Virginia was approved unanimously, with the understanding that an order and statement reflecting this decision would be prepared for the Board's consideration and that the transmittal letter to that bank would indicate that the Board felt that further strengthening of the applicant's capital position was needed. It was also understood that the Division of Examinations would make an analysis of the capital requirements of all banks in the Virginia Commonwealth group and the ability of the holding company to provide needed capital.

Mr. Hricko then withdrew and the following entered the room:

Mr. Molony, Assistant to the Board
Mr. Goodman, Assistant Director, Division of
Examinations

Policy record entries: Federal Open Market Committee. With a memorandum dated April 5, 1963, which had been distributed, Mr. Young, as Secretary of the Federal Open Market Committee, submitted a revised draft of the record of policy actions of the Committee covering the Committee meetings held on January 8 and 29 and February 12, 1963. This record had been prepared for inclusion in the Annual Report of the Board of Governors pursuant to the requirement of section 10 of the Federal Reserve Act. The memorandum noted that in preparing the revised draft, consideration had been given to comments received from the members of the Federal Open Market Committee, from the Reserve Bank Presidents not currently serving on the Committee, and from members of the Committee staff following distribution of preliminary drafts of the policy record

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entries. The resulting changes were indicated in the revised draft and were almost entirely of a minor editorial nature with no question of importance being raised in connection with the content of any of the entries.

Mr. Young noted that it had not been customary to submit revised drafts of the Open Market policy record to the Reserve Bank Presidents for additional comments but if the Board approved these entries, it might wish to transmit copies to the Reserve Bank Presidents for their information with a note that the entries had been approved for inclusion in the Annual Report. Mr. Young requested the Board's guidance on the procedure to be followed on this matter for the remainder of the year.

Governor Mitchell stated that he had no particular suggestions regarding these entries but that, as a general proposition, he felt that the entries for the policy record should be processed as promptly as possible and that, once suggestions for changes in the preliminary draft entries had been made and given appropriate consideration, revised drafts should be circulated promptly to the Board and, if approved, regarded as final except for editorial corrections. Governor Mitchell emphasized the view that it was particularly desirable to avoid after-the-fact changes that could reflect data or views not available to the Committee at the time the decisions were made.

Mr. Sherman stated that, in preparing the policy record entries for the Committee, the staff constantly attempted to reflect only what occurred at the meeting and to include only data presented at

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that time, even if later developments produced changes in the facts. He agreed that a close schedule helped avoid changes after the fact, but he noted that some delay was unavoidable since it was necessary to check all proposed changes against the minute record to determine accuracy. In reply to a question, Mr. Sherman said that Open Market policy record entries were mailed out under a confidential cover and that standard procedures would provide that such entries were available only to authorized persons until their publication in the Annual Report.

There arose a discussion with respect to the entry for the meeting on January 8, 1963, after which the Board agreed to a minor change of wording in the first paragraph, along with an editorial correction with respect to the number of foreign central banks involved in reciprocal currency agreements as of that date.

The entries for the record of policy actions of the Federal Open Market Committee for January 8 and 29 and February 12, 1963, were then approved for inclusion in the Annual Report of the Board of Governors for 1963, subject to the understanding that the Committee staff would make the changes agreed upon at this meeting. It was also understood that the staff was authorized to follow the procedure outlined by Mr. Young in submitting policy record entries to the Board for final approval during the remainder of the year.

Farmers and Merchants Bank of Long Beach (Item No. 2). Mr. O'Connell informed the Board that subpoenas had been served on Vice President E. H. Galvin and Examiner George Walker of the San

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Francisco Reserve Bank requiring their appearance before a Federal grand jury in Los Angeles on May 22, 1963. Mr. Galvin had been ordered to have in his possession at the time of his appearance the Reserve Bank's reports of examination of Farmers and Merchants Bank of Long Beach, Long Beach, California, for the period January 1, 1957, to date, along with all correspondence, memoranda, notes, and intra-office correspondence in the files of the Reserve Bank regarding Farmers and Merchants Bank for the same period.

Mr. O'Connell expressed the belief that the United States Attorney was interested in material relating to possible illegal banking transactions between Farmers and Merchants Bank and two individuals, Mr. Fred M. Riedman and Mr. Alexander T. Chohon. In this connection, he noted that on May 19, 1961, the Board authorized the San Francisco Bank to permit Examiner Walker to discuss with representatives of the Federal Bureau of Investigation circumstances surrounding a loan made by Farmers and Merchants Bank to Mr. Riedman in 1959 and, if necessary, to afford access to information appearing in the examination files relating to that loan. However, the Board did not authorize the Bank to make the examination reports themselves available to the investigators.

In the present situation, Mr. O'Connell expressed the opinion that the subpoena, as issued, covered too broad an access to the examination reports and he suggested that the United States Attorney in Los Angeles be requested to narrow the scope of the subpoena to show

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exactly what information the Justice Department wanted. If this could not be arranged, Mr. O'Connell suggested that Messrs. Galvin and Walker be authorized to appear before the grand jury with the requested documents, as directed by the subpoena, but that Mr. Galvin should be advised to refuse to turn over the complete files, citing the Board's Rules of Procedure. This would then require a ruling by the Court as to which material should be regarded as relevant to the investigation. Mr. O'Connell expressed the opinion that it would be wholly appropriate for the Board to authorize specific information in the files to be made available in a criminal case involving a member bank.

Governor Mills expressed the feeling that the Board should not provide information in a criminal proceeding unless compelled to do so by the Court. To provide such information would be particularly unfair where a prosecutor seeks to bring in a bill of indictment and the parties involved do not have an opportunity to present a defense.

Mr. O'Connell stated that a grand jury could act on prima facie evidence, but the defendants would have ample opportunity to refute it if and when the matter came to trial.

Governor Mills then added that he considered the examination reports as being confidential between the bank and its customers and that he would dissent from any action that would make them available without a Court order.

After further discussion, during which it was noted that the Board had cooperated in providing information to the Justice Department in

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other cases, the Board agreed, with Governor Mills dissenting, to the course of action recommended by Mr. O'Connell.

Secretary's Note: Following the meeting, Mr. O'Connell was informed that Assistant United States Attorney Murphy of Los Angeles, in charge of this matter, had agreed to have issued a more specific subpoena in line with what the Board would regard as appropriate and a telegram outlining the Board's further instructions on how to respond to both subpoenas was sent to the San Francisco Bank on May 21, 1963, in the form attached to these minutes as Item No. 2.

Messrs. O'Connell and Sanford then withdrew and the following entered the room:

Mr. Cardon, Legislative Counsel
Mr. Furth, Adviser, Division of International
Finance

Regulation K. There had been distributed copies of letters received from Government agencies, Edge Act corporations, and Reserve Banks (except New York) in response to the Notice of Proposed Rule Making that was published in the Federal Register with regard to a proposed revision of Regulation K, Corporations Doing Foreign Banking or Other Foreign Financing under the Federal Reserve Act.

Governor Mitchell suggested that the Board consider in the near future the merits of certain suggestions in the letters that appeared to be constructive. He felt that the Board might be able to accept a good many of these suggestions regarding the proposed revision. Accordingly, it was his thought that if the Board could consider and pass upon a few basic suggestions, a new draft revision could then be prepared, after which interested parties could be asked again to review the draft and invited to present their views.

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It was understood that further consideration would be given to Governor Mitchell's suggestion at a later meeting.

Foreign travel. Mr. Young informed the Board that the Agency for International Development and the Department of the Treasury had approached the Federal Reserve Bank of New York on May 17, 1963, with a request for the services of one of the Bank's men for consultation with the National Bank of the Congo, Republic of the Congo, which was seeking technical assistance to initiate a multiple currency system. The assignment was expected to last about a week. Because of the urgency of the request, the New York Bank assigned Peter P. Lang, Adviser at the Bank, to travel to the Republic of the Congo on the requested assignment without obtaining the approval of the Board, and Mr. Lang was scheduled to leave within a day or two.

Chairman Martin noted that a practice of informing the Board on a matter of this kind after a decision had in effect been reached was not desirable. In this instance, he felt that the Board might interpose no objection to making Mr. Lang's services available to the Agency for International Development for the period requested, but that he (Chairman Martin) should discuss with President Hayes of the New York Bank the procedure to be followed in submitting such requests to the Board, in accordance with outstanding instructions. There was agreement with this suggestion.

The meeting then adjourned.

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Secretary's Notes: Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of St. Louis (attached Item No. 3) approving the appointment of William F. Denton as assistant examiner.

Memoranda from appropriate individuals concerned recommending the following actions relating to the Board's staff:

Appointment

James D. Goetzinger as Economist, Division of Research and Statistics, with basic annual salary at the rate of \$8,045, effective the date of entrance upon duty.

Salary increases, effective May 26, 1963

Mary William Wahle, Records Clerk, Office of the Secretary, from \$4,250 to \$4,390 per annum.

Jaclene T. Masterson, Stenographer, Legal Division, from \$4,250 to \$4,390 per annum.

Cynthia B. Bowlin, Draftsman, Division of Research and Statistics, from \$4,110 to \$4,250 per annum.

Charles W. Bryson, Economist, Division of Research and Statistics, from \$6,900 to \$7,125 per annum.

Richard C. Pickering, Economist, Division of Research and Statistics, from \$11,150 to \$11,515 per annum.

Harriet D. Berger, Secretary, Division of International Finance, from \$5,375 to \$5,545 per annum.

James A. McIntosh, Jr., Technical Assistant, Division of Bank Operations, from \$8,575 to \$8,840 per annum.

Mary Crawford, Head Cook, Division of Administrative Services, from \$4,950 to \$5,090 per annum.

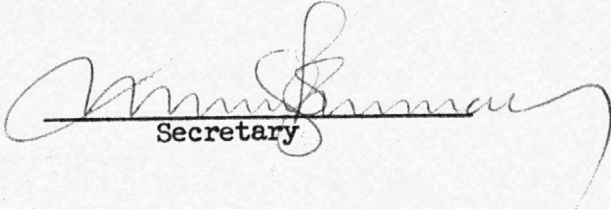
Transfer

Myron B. Jonsberg, Jr., from the position of Research Assistant in the Division of Research and Statistics to the position of Analyst in the Division of Bank Operations, with no change in basic annual salary at the rate of \$5,035, effective the date of assuming his new duties.

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Pursuant to the recommendation contained in a memorandum from the Division of Personnel Administration dated May 17, 1963, Governor Shepardson also approved today on behalf of the Board the designation of Bankers Multiple Line Insurance Company as the insuring company for the Board's accident insurance program, as recommended by Marsh and McLennan, Inc., the Board's insurance broker for this program. (The accident insurance program was approved by the Board on April 26, 1963.)


Secretary

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

Item No. 1
5/20/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 20, 1963

Board of Directors,
Central Trust Company Rochester, N.Y.,
Rochester, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch in the terminal building of the Rochester Monroe County Airport, 1200 Brooks Avenue, City of Rochester, Monroe County, New York, by Central Trust Company Rochester, N.Y., provided the branch is established within six months 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.)

T E L E G R A M
LEASED WIRE SERVICEItem No. 2
5/20/63BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

May 21, 1963.

Scott - San Francisco

Reference to your telegram to the Board of May 17, 1963, to your letter to the Board of the same date, and to your telephone conversation of May 20 with O'Connell of the Board's legal staff, relating to the subject of subpoenas served on Vice President E. H. Galvin and Examiner George Walker of San Francisco Reserve Bank requiring their appearance before a Federal grand jury in Los Angeles on May 22, 1963.

Your telegram and copies of the subpoenas enclosed in your letter advise that Galvin or authorized representative has been ordered to have in his possession at the time of his appearance before the grand jury the following documents:

(a) San Francisco Reserve Bank's reports of examination of Farmers & Merchants Bank of Long Beach, California, for the period January 1, 1957 to date;

(b) Copies of all correspondence in the files of the San Francisco Reserve Bank exchanged between that Bank and Farmers & Merchants Bank of Long Beach for the period January 1, 1957 to date;

(c) Copies of memoranda, notes, and intra-office correspondence in the files of the San Francisco Reserve Bank regarding Farmers & Merchants Bank of Long Beach for the period January 21, 1957 to date.

T E L E G R A M
LEASED WIRE SERVICEBOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

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Your telegram and letter advise also that Walker is required merely to appear without further requirement of documentary production. In conversation with O'Connell of Board's staff, subsequent to Board's receipt of referenced telegram and letter, you advised that as result of conversation with Assistant U. S. Attorney Murphy, Los Angeles, identified as being in charge of or connected with presentation of this matter to Federal grand jury, U. S. Attorney will cause to be issued immediately a new, more specific subpoena wherein Galvin or authorized representative will be required to appear at the above-stated time and place and produce only (1) those portions of the reports of examination identified in (a) above relating to the March 1959 loan by Farmers & Merchants Bank of Long Beach to Fred R. Riedman* and to transactions occurring between Farmers & Merchants Bank of Long Beach and its officials, and Mr. Alexander T. Chohon; (2) those portions of the correspondence identified in (b) above relating to the matters set forth in (1) immediately above; and (3) the memoranda or notes contained in the files of the San Francisco Reserve Bank purporting to reflect oral conversations or meetings held between members of the staff of San Francisco Reserve Bank and directors or officials of Farmers & Merchants Bank of Long Beach relating to the matters set forth in (1) immediately above. It is understood that the subpoena directed to Examiner Walker will remain unchanged. In connection with independent subpoenas you request the Board's instructions as to the response to be

* Should have read Fred M. Riedman.

TELEGRAM
LEASED WIRE SERVICE**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON**

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made to these subpoenas.

In connection with appearances before grand jury on May 22, of Galvin and/or Walker and/or other person or persons appropriately designated by Reserve Bank, Board authorizes production upon specific demand of only those portions of the San Francisco Reserve Bank's reports of examination, copies of correspondence, memoranda, and notes that are determined by Galvin, you, and/or other appropriate officials or employees of the Reserve Bank to relate specifically to the matters set forth in (1), (2), and (3) above. Board authorizes oral testimony on the same matters and within the same restrictions as are herein authorized in respect to production of documents. As to authorization herein relating to disclosures from the reports of examination, such authorization relates to both open and confidential portion of reports of examination. Suggest that if time permits, extracts be made of materials, production of which is herein authorized, and that only such extracts, properly authenticated or identified, be produced before the grand jury. Under no circumstances does authorization herein contemplate production or disclosure in any form, written or oral, of any other portion of reports of examination, copies of correspondence, memoranda, or notes in the possession of San Francisco Federal Reserve Bank. Any efforts to obtain such information should be resisted on the authority and under citation of section 261.5(a) and (b) of the Board's Rules

TELEGRAM
LEASED WIRE SERVICE**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**
WASHINGTON

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Regarding Information, Submittals, and Requests. It is understood that you or William Cooper will accompany Galvin and/or Walker to Los Angeles. Please keep the Board advised of developments.

(Signed) Merritt Sherman
Sherman

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

Item No. 3
5/20/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 21, 1963

AIR MAIL

CONFIDENTIAL (FR)

Mr. O. O. Wyrick, Vice President,
Federal Reserve Bank of St. Louis,
St. Louis 66, Missouri.

Dear Mr. Wyrick:

In accordance with the request contained in your letter of May 13, 1963, the Board approves the appointment of William F. Denton as an assistant examiner for the Federal Reserve Bank of St. Louis, effective June 10, 1963.

It is noted that Mr. Denton's father is Executive Vice President of Planters Bank, Sikeston, Missouri, a nonmember bank. Accordingly, the Board's approval of Mr. Denton's appointment is given with the understanding that he will not participate in any examination of that bank so long as his father is an officer or director of that institution.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

