Minutes for June 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  
Gov. Mills  
Gov. Robertson  
Gov. Balderston  
Gov. Shepardson  
Gov. King  
Gov. Mitchell
Minutes of the Board of Governors of the Federal Reserve System

on Monday, June 10, 1963. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Shepardson
Mr. King
Mr. Mitchell

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Adviser to the Board and Director, Division of International Finance
Mr. Hackley, General Counsel
Mr. Noyes, Director, Division of Research and Statistics
Mr. Farrell, Director, Division of Bank Operations
Mr. Hexter, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Benner, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Mattras, General Assistant, Office of the Secretary
Miss Hart, Senior Attorney, Legal Division
Mr. Veenstra, Chief, Call Report Section, Division of Bank Operations

Ratification of actions. Actions taken by the available members of the Board at the meeting held on June 7, 1963, as recorded in the minutes of that meeting, were ratified by unanimous vote.

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

Letter to the Federal Reserve Bank of San Francisco regarding the treatment in reports of condition and examination of the 7 per cent investment tax credit allowable under the Revenue Act of 1962.

Letter to Morgan Guaranty International Finance Corporation, New York, New York, granting permission to purchase shares of The Industrial Credit and Investment Corporation Limited, Bombay, India.

Letter to all Federal Reserve Banks transmitting copies of revised and new pages of the report of examination of State member banks (FR 410).

Memorandum from Messrs. Holland, Adviser, Division of Research and Statistics, and Conkling, Assistant Director, Division of Bank Operations, dated May 28, 1963, regarding midyear reports of income and dividends.

Memorandum from the Legal Division dated June 6, 1963, regarding the furnishing of certain unpublished information to the Securities and Exchange Commission.

In connection with Item No. 1, there was a brief discussion at the instance of Governor Mills concerning the extent of dividend payments, without request for Board approval, following the bank's acquisition by Muscatine-Joliet Investment Corporation. It was suggested that future developments in connection with the operations of the bank be followed carefully by the Division of Examinations.

Messrs. Goodman and Veenstra then withdrew and Mr. Cardon, Legislative Counsel, entered the room.

Report on competitive factors (New York, New York). There had been distributed a draft of report to the Federal Deposit Insurance

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

The proposed merger would eliminate the direct competition existing between these two banks, but it would appear that the proposal would not necessarily have significantly adverse competitive effects in view of alternative sources of financial services available.


After discussion, the report was approved unanimously for transmission to the Comptroller; the conclusion read as follows:

The consolidation of Calumet National Bank and Mercantile National Bank, both of Hammond, Indiana, would have strongly adverse competitive effects. The proposal would eliminate substantial competition existing between the two banks and would concentrate about 80 per cent of local commercial bank deposits in one institution. Readily available alternative banking sources would be restricted significantly as in most instances the nearest banking office to an office of Calumet National or Mercantile National is an office of the other participant.

Messrs. Hooff and Benner and Miss Hart then withdrew and Mr. Molony, Assistant to the Board, entered the room.
Deposit insurance bill (Item No. 7). There had been distributed a memorandum from Mr. Hackley dated June 6, 1963, concerning a request from the Bureau of the Budget for the Board's views on a revised draft of deposit insurance bill transmitted with a legislative referral memorandum from the Bureau dated June 5, 1963. (The most recent discussion of this proposed legislation was at the meeting of the Board on June 4, 1963.)

The revised draft bill differed in several respects from an earlier draft on which the Board reported to the Budget Bureau on May 27, 1963. In its revised form, the draft bill would increase deposit and share account insurance coverage from $10,000 to $15,000, but provisions included in the previous draft regarding liquidity of commercial banks would be omitted. Standby authority over deposit interest rates would be vested in the Board as to member banks, the Federal Deposit Insurance Corporation as to nonmember insured banks, and the Federal Home Loan Bank Board as to savings and loan associations; and each agency would be required to consult with the others before setting such rates. Members of the Home Loan Bank System would be subject to more restrictive liquidity requirements, and conflict of interest provisions of a criminal nature now applicable to insured banks would be made applicable to members of the Home Loan Bank System. The revised draft bill would change section 22(g) of the Federal Reserve Act to increase the permissible amount of loans by banks to executive officers, subject to specified conditions, and the same provisions would be extended to executive officers of nonmember insured
banks under regulations of the Federal Deposit Insurance Corporation. In addition, certain changes would be made in section 23A of the Federal Reserve Act relating to loans to affiliates of member banks.

In discussion, Mr. Hackley noted that the revised draft bill omitted certain provisions, or suggested provisions, to which the Board had previously objected. In the circumstances, he expressed the feeling that it might be difficult to object in principle to the revisions incorporated in the new draft bill. He noted that a draft letter had been prepared that would advise the Budget Bureau to such effect.

Governor Mills agreed that the revised draft bill was an improvement over previous drafting. In his view, however, the provision for standby authority over deposit interest rates was unsatisfactory, particularly since the imposition of rate ceilings presumably would occur only after a situation had developed that needed correction. At present there was a flexibility that permitted problems to be anticipated. Also, a statutory requirement for consultation among the Board, the Federal Deposit Insurance Corporation, and the Home Loan Bank Board on the setting of maximum rates would further complicate the administration of the law.

With regard to the proposal for tighter liquidity requirements applicable to members of the Home Loan Bank System, Governor Mills noted that these provisions apparently were directed at encouraging sounder lending and investment practices, but he cautioned against trying to do mechanically that which could best be done through more effective supervision. Also, the proposed increase in the amount of loans that banks would be permitted to make to executive officers was in his judgment
of questionable sufficiency. In view of these and other features of the draft bill, Governor Mills felt it would encounter substantial opposition from the banking and savings and loan industries, and he regarded the prospect for enactment of such a bill as poor.

Chairman Martin noted that, although the Board might not be enthusiastic about the proposed legislation, the revised draft bill was an improvement over earlier drafting, which raised the question whether the Board—particularly in light of its May 27 letter—should interpose objection at this time. The record appeared to him to be such that the Board would be free in the future to express its views on various features of the bill if it were introduced. Assuming that the Board did not wish to introduce a bill of its own, the Chairman felt that the reasonable approach might be to raise no objection to the revisions incorporated in the current draft bill.

Mr. Hackley concurred in the opinion that in interposing no objection at this time the Board would not be foreclosed from commenting in such manner as it saw fit, by report or testimony, on any bill that might be introduced.

Governor King expressed the view that the proposed standby authority over dividend rates paid by members of the Home Loan Bank System was a favorable feature of considerable importance, although he agreed that a requirement for interagency consultation over the setting of maximum rates might prove cumbersome.

Governor Mitchell expressed disappointment that in the process of drafting and redrafting the scope of the proposed legislation had
been considerably narrowed. It had appeared to him originally that an opportunity was presented to develop a legislative proposal of a fundamental nature. As matters had progressed, however, the scope of the proposed legislation had become more and more limited. This placed the Board in a position of being asked to lend its support to a proposal that represented a piecemeal approach, and he was reluctant to see the Board placed in such a position.

There ensued a discussion during which it was recalled that the drafting of the proposed legislation had its origin in testimony by the Secretary of the Treasury before the House Banking and Currency Committee with respect to a bill to increase from $10,000 to $25,000 the maximum insurance coverage of bank deposits and savings and loan share accounts. In that connection the Secretary had called to the attention of the House Committee the view expressed in the report of the President's Committee on Financial Institutions that certain measures to strengthen the structure of supervision of banks and savings and loans associations should be a prerequisite to increasing the insurance coverage. Accordingly, it had been suggested that legislation reflecting this view be drafted. The Board had testified adversely on the original deposit insurance bill, and it seemed clear from the record to date that the Board was not enthusiastic about the legislation now being drafted. In its present limited form, however, there was the question whether the Board would want to interpose objection.
Governor Mitchell reiterated that his objection went principally to what was omitted from the current draft bill rather than to what was included in it. He suggested that the proposed letter to the Budget Bureau might be revised slightly to state that the Board would have no objection to the revisions incorporated in the draft legislation, as compared with the prior draft, considering the limited objectives of the proposal.

Accordingly, it was understood that the proposed letter to the Budget Bureau would be amended to incorporate language along the lines suggested by Governor Mitchell, and approval was given to a letter in the form attached as Item No. 7. Governor Mills dissented on the ground that the draft legislation, as revised, did not meet his original objections.

Gold vault facilities at New York. There had been circulated a letter from the Federal Reserve Bank of New York dated March 22, 1963, relating further to proposed alterations of gold vault facilities at the Bank. This matter had been considered by the Board at the meetings held on December 5, 18, and 19, 1962.

In discussion, Governor Mitchell indicated that he continued to have reservations about the proposed expansion of the gold vault facilities. He raised the question whether the New York Bank should not explore the possible use of gold storage facilities available at the U. S. Assay Office in New York City, at least for gold owned by the International Monetary Fund.

Chairman Martin then suggested that arrangements be made for President Hayes of the New York Bank to discuss the proposal with the
Board following the Open Market Committee meeting on June 18, 1963, and agreement was expressed with this procedural suggestion.

The meeting then adjourned.

Secretary's Notes: Pursuant to the recommendation contained in a memorandum from the Division of Research and Statistics, Governor Balderston, acting in the absence of Governor Shepardson, approved on behalf of the Board on June 5, 1963, the appointment of Harlow D. Osborne as Chief, Consumer Credit and Finances Section, Division of Research and Statistics, with basic annual salary at the rate of $16,965, effective the date of entrance upon duty.

Pursuant to recommendations contained in memoranda from the Division of Research and Statistics, Governor Shepardson today approved on behalf of the Board the appointment of the following persons to the staff of that Division:

Thomas R. Beard as Economist, with basic annual salary at the rate of $10,420, effective the date of entrance upon duty.

Franklin Edwards as Economist, with basic annual salary at the rate of $10,105, effective the date of entrance upon duty.
Board of Directors,
Muscatine Bank and Trust Company,
Muscatine, Iowa.

Gentlemen:

The Board of Governors has received from the Federal Reserve Bank of Chicago a copy of a letter dated May 17, 1963, from Mr. F. W. Allen, Chairman of the Board, Muscatine Bank and Trust Company, in which he requests permission for the declaration of a dividend by Muscatine Bank and Trust Company of $37,500 in June 1963. The Board's permission for the declaration of this dividend is required by the provisions of paragraph 6, Section 9 of the Federal Reserve Act and Section 5199(b), United States Revised Statutes.

After consideration of the facts, the Board approves the declaration of a dividend of $37,500 to be declared in June 1963. This letter does not authorize the declaration of any other dividend in 1963 or later.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
Mr. James Ahlf, Chief Examiner,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Ahlf:

This refers to your letter of February 14, 1963, requesting the Board's views as to the treatment in reports of condition and examination of the 7 per cent investment tax credit allowable under the Revenue Act of 1962.

You state that one of your member banks, at the direction of its tax counsel, has deducted $2,635.13 from the furniture and fixtures account and has transferred that amount to a suspense asset account, pending further advice from counsel as to its disposition. You indicate that this amount, representing 7 per cent of the cost of certain tangible personal property acquired during 1962 which qualified as "section 38 property" under the Revenue Act of 1962, has been taken as a direct credit against 1962 income taxes and cannot be depreciated in future years for tax purposes. You further state that the transfer of 7 per cent of the cost of the property was for the purpose of reducing the depreciable base of the property for book purposes to an amount equal to the depreciable balance for tax purposes.

For book purposes there seems to be little reason for maintaining the 7 per cent of the cost of the property as an asset and examiners should be instructed to encourage management to charge such portions of the cost to undivided profits. However, if this is not effected, the item should be reflected on pages 1 and 13 of the report of examination as an investment in furniture and fixtures. The treatment of such items is not covered in either the instructions for the preparation of reports of condition or of income and dividends; however, tentative agreements have been reached with representatives of the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation that the asset or suspense item should be charged off but, if not, should be reported as furniture and fixtures for condition report purposes. In those instances where such amounts are charged off, it has also been agreed that such charge-offs should be reported in the income and dividend report against item 5(c), all other charge-offs and losses.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
Morgan Guaranty International Finance Corporation,  
23 Wall Street,  

Gentlemen:

In accordance with the request contained in your letter of April 25, 1963, transmitted through the Federal Reserve Bank of New York, and on the basis of information furnished, the Board of Governors grants its consent for Morgan Guaranty International Finance Corporation ("MGIFC") to purchase and hold 3,000 shares, par value Indian rupees 100 each, of capital stock of The Industrial Credit and Investment Corporation of India Limited ("ICICI"), Bombay, India, at a cost of approximately US$63,000 (equivalent), provided such stock is acquired within one year from the date of this letter.

The Board's consent is granted upon condition that MGIFC shall dispose of its holding of stock of ICICI, as promptly as practicable, in the event that ICICI should at any time (1) engage in issuing, underwriting, selling or distributing securities in the United States; (2) engage in the general business of buying or selling goods, wares, merchandise, or commodities in the United States or transact any business in the United States except such as is incidental to its international or foreign business; or (3) otherwise conduct its operations in a manner which, in the judgment of the Board of Governors, causes the continued holding of its stock by MGIFC to be inappropriate under the provisions of Section 25(a) of the Federal Reserve Act or regulations thereunder.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.
Dear Sir:

There are enclosed copies of revised and new pages of the report of examination (FR 410) which the Board has authorized for immediate use. A supply of the forms is being forwarded to you under separate cover; additional supplies may be obtained upon request.

Several technical changes have been made on page 4 but the page is essentially the same as the previous form. While the page is designed for five full calendar years, it is realized that, because of the changes in several captions, it would be difficult, if not impossible in some cases, to reflect accurately the figures for the years prior to 1961. Therefore, for the remainder of 1963, the first three columns on page 4 should be left blank and the income and expense data for the calendar years 1961 and 1962 should be reflected in the last two columns. At each examination in subsequent years an additional column would be completed until five full calendar years of earnings are reflected in the report.

The use of the new page 4 will necessitate changes in the reporting practices regarding supplemental page 4(a) now in use, i.e., all schedules of reserves should reflect data for the five full previous calendar years, all dollar amounts should be stated in thousands, and a phrase such as "in thousands" or "000 omitted" should be interlined immediately under the caption at the top of the page.

The new page 16(a) is for the purpose of reporting differences in reports of condition to the Federal Deposit Insurance Corporation as explained in the Board's letter (S-1805) dated August 16, 1961. Should there be more than four condition reports published since the previous examination, a follow page, 16(a)-F, has been designed and enclosed to report differences to the Corporation for at least eight reports. A copy of page 16(a), separate from the one bound in the report of examination, should be furnished for transmittal by this office to the FDIC. If no errors in reports of condition are reported, page 16(a) should not be included in the bound report, but a prepared page, indicating the
absence of error, should be forwarded for use by the Corporation.

Where the bank acts as trustee or agent, information relative to pension and similar trusts established by State member banks for the benefit of their officers and employees is now furnished on page T-12 (question 6) of the report of examination of the trust department, with a cross reference on page A of the confidential section. For banks that do not maintain trust departments, information concerning pension and similar trusts for their officers and employees has been shown on page A. Instructions for reporting such information have been the subject of Board letters of June 9, 1961, and August 4, 1961, which are numbered S-1796 and S-1804, respectively. To improve and simplify procedures for reporting on this feature, a new page 19(a) has been designed for use in the open section of the commercial report. It would be expected that concise but informative answers be provided and that the page would be used in all cases where a State member bank has established, for the benefit of its officers and employees, a pension, thrift, profit sharing, or similar trust, whether or not the member bank is the trustee. It will no longer be necessary to answer question 6 on page T-12 except by cross reference, and information concerning such employee benefit trust will not need to be reported on page A, unless confidential information is to be furnished. It is not contemplated that health and accident plans would be reported on page 19(a), although they should be mentioned on page A in accordance with the instructions in the Board's letter S-1796 previously noted.

Very truly yours,

Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Reference in last paragraph to letter S-1804 should have stated that letter was dated August 14, 1961, rather than August 4, 1961. Reserve Banks advised by wire.
This refers to our memorandum of June 15, 1962, which discussed the uses of this report. The Board approved the recommendations contained therein regarding (1) no unilateral collection at midyear 1962; (2) advice to the Bureau of the Budget; (3) course of action if the Bureau requested resumption of the reports; and (4) regardless of the present attitude of the Office of Statistical Standards and the other Federal bank supervisory agencies, reconsideration of the matter by the Board in the spring of 1963 if needs for interim bank earnings reports from all member banks then appear to be urgent.

No response to this action has been received from the Bureau. The former users of the midyear bank earnings data -- as outlined in our June 15, 1962, memorandum -- do not appear to have developed any satisfactory substitute, but we are aware of no urgent or special requirements for bank earnings data which would not be satisfied by the end-of-year reports. Accordingly, in the absence of formal representations from other agencies, it is recommended that the Board take no further action in the matter at this time.

* Mr. Holland approved the draft of this memorandum.
June 6, 1963

Subject: Request for permission to disclose certain unpublished information to the SEC for study in connection with possible disciplinary action against a brokerage firm.

A possible violation of Regulation T involving the exchange of shares of stock in Progress Manufacturing Company ("Progress") has been called to the attention of the Board's Legal Division. The circumstances have also been reported to the office of Mr. Robert Block, Chief Counsel of the Division of Trading and Exchanges of the Securities and Exchange Commission ("SEC"), which has asked for assistance from the Board's staff in interpreting the Regulation.

Progress is listed on the American Exchange, and the shares in question were held as collateral for a margin loan by the firm of Reynolds and Company. The shares were exchanged for unlisted shares of Reading Tube Company ("Reading"), pursuant to an offer by Progress. This exchange would appear to have been in violation of section 220.3(b) of the Regulation, forbidding transactions in a margin account or withdrawals from the account which result in creating or increasing an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account*, unless the exchange was carried out pursuant to the exception contained in section 220.6(e) of the Regulation. This exception permits a creditor "without regard to the other provisions of this part [to] effect for a customer the exchange of any registered or exempted security in a general account for the purpose of participating in a reorganization or recapitalization in which the security is involved".

In order for the Board and for the SEC to determine whether a violation has occurred, it will be necessary to decide whether the exchange of Progress stock for Reading stock amounted to "a reorganization or recapitalization" within the meaning of section 220.6(e). So far as can be discovered, the Board has only twice had occasion to rule on the question of what is a recapitalization or reorganization for the purposes of this section. In a letter of March 2, 1960, discussing acquisition by International Harvester Company of stock of Solar Aircraft Company, and in a telegram of December 2, 1959, discussing an offer by Matson Navigation Company to purchase and redeem its stock in exchange for shares of three other companies plus cash, the Board held that the exchanges in question did fall within the exemption provided by 220.6(e). Neither communication has been published.

* Unlisted securities, of course, have no loan value in a margin account.
Staff of the SEC has indicated that it would be helpful to them if they could be supplied with copies of these unpublished rulings, and with the supporting memoranda by Mr. Hexter in the International/Solar case, and by Miss Hart in the Matson case. Rule 261.2(b) of the Board's Rules Regarding Information forbids disclosure of "unpublished information of the Board", which is defined to include the materials in question, without the Board's permission. Neither the letters nor the memoranda contain any material which, it is believed, is of such nature that its disclosure to the SEC would be inadvisable. They relate to transactions which have been accomplished, and are matters of public record. Accordingly, it is not believed that there is any valid reason for refusing the request of the SEC staff.

It is recommended, therefore, that the Board authorize its Legal Division to furnish Mr. Block with copies of (1) its letter of March 2, 1960, relating to the International/Solar exchange of stock, (2) its telegram of December 2, 1959, relating to the exchange of Matson stock, and (3) the supporting staff memoranda addressed to the Board.
Mr. Phillip S. Hughes,
Assistant Director for
Legislative Reference,
Bureau of the Budget,
Washington 25, D. C.

Dear Mr. Hughes:

This refers to Legislative Referral Memorandum dated June 5, 1963, requesting any further comments the Board may wish to make on the revisions contained in the attached draft of a bill "To provide for an increase in the maximum amount of insurance coverage for bank deposits and savings and loan accounts, to protect further the safety and liquidity of insured institutions, to strengthen safeguards against conflicts of interest, and for other purposes".

Considering the limited purposes and scope of this proposal, the Board has no objection to the revisions incorporated in the new draft of bill, as compared with the prior draft, with respect to which the Board commented in its letter to you of May 27, 1963.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.