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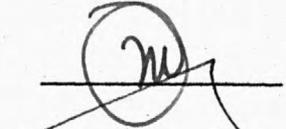
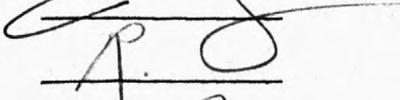
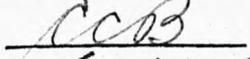
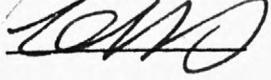
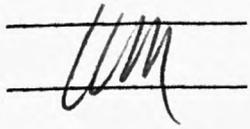
Minutes for June 26, 1963

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 Wednesday, June 26, 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. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel Administration
Mr. Hexter, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Furth, Adviser, Division of International Finance
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Sprecher, Assistant Director, Division of Personnel Administration
Mr. Partee, Chief, Capital Markets Section, Division of Research and Statistics
Mr. McClintock, Supervisory Review Examiner, Division of Examinations
Mr. Poundstone, Review Examiner, Division of Examinations
Mr. Doyle, Attorney, Legal Division

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

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	<u>Item No.</u>
Letter to Pacific State Bank, Hawthorne, California, approving an investment in bank premises.	1
Letter to the President of the Indianapolis Clearing House Association, Indianapolis, Indiana, relating to the possible establishment of a Federal Reserve Bank branch in Indianapolis.	2

The letter to the President of Indianapolis Clearing House Association (Item No. 2) was approved in a form reflecting certain changes from the draft that had been distributed prior to the meeting. These changes were intended to make it clear that the establishment of an additional Federal Reserve office was a matter for ultimate determination by the Board of Governors rather than a Federal Reserve Bank, that the Board had made no determination on the Indianapolis question, and that the steps suggested for the presentation of additional data were to be understood as procedural suggestions within that framework.

Mr. McClintock then withdrew from the meeting.

Absorption of exchange charges (Item No. 3). There had been distributed a memorandum from the Division of Examinations dated June 12, 1963, regarding the practice of the Arnold Savings Bank, Arnold, Missouri, in maintaining an account with a nearby nonpar bank, The Citizens Bank of Festus, Festus, Missouri, which paid or collected nonpar checks deposited in or cleared by it without deducting exchange charges. In transmitting the matter for the Board's consideration, the Federal Reserve

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Bank of St. Louis advised that the subject bank was located in a nonpar banking area, and its customers deposited an important number of checks received in settling business transactions in this area. The practice followed by the savings bank had been discussed with the bank's management, but for competitive reasons the bank had expressed unwillingness to discontinue or change it.

The memorandum noted that the Board's interpretation of August 4, 1960, had stated that the practice of maintaining "balances with another bank or banks in return for which such other bank or banks directly or indirectly would absorb for it exchange charges made by the drawee banks ... shall be deemed to be the payment of interest on demand deposits in violation of Regulation Q and section 19 of the Federal Reserve Act. In other words, the payment of interest includes any direct or indirect payment or absorption of exchange charges by any device whatsoever, regardless of whether such payment or absorption is made directly by a member bank or indirectly through any other bank for a member bank or a depositor of such member bank. This principle will be applied hereafter by examiners for the Federal Reserve Banks in their examinations of State member banks and the Comptroller of the Currency has advised that it will be applied by national bank examiners in their examinations of national banks." This interpretation had been reaffirmed by the Board later in 1960, with the modification that member banks were authorized to absorb exchange charges in amounts aggregating not more than \$2 for any

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one depositor in any calendar month or any regularly established period of 30 days.

There had also been distributed to the Board copies of a letter dated June 17, 1963, from Mr. James C. Bolton, Chairman of Rapides Bank & Trust Co., Alexandria, Louisiana, who explained at some length why he considered the present provisions of Regulation Q in relation to absorption of exchange charges to result in a competitive inequity from the standpoint of his bank and others similarly situated. With the letter, there had been distributed a draft of proposed reply to Mr. Bolton which indicated, among other things, that the Board's Legal Division had been requested to undertake a comprehensive study of Regulation Q with a view to considering a change that would permit equal competition among banks in a given area, as well as various other matters that had made administration of the Regulation difficult and time-consuming.

In discussion Governor Mills commented that the question relating to the Arnold Savings Bank was part of a broader picture. As he recalled it, the Board handed down an interpretation with respect to the absorption of exchange charges in 1960, and representatives of the American Bankers Association conferred with the Board on the subject. The general theory was that over a period of time the bankers would be left to discipline themselves within reasonable limitations. That self-discipline, however, apparently had not been vigorous. It seemed to him that the attention of the American Bankers Association should be called to the fact that

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there had been deviations from the understanding that was reached. Also, a change in the chairmanship of the Federal Deposit Insurance Corporation was to occur in August, and thereafter the Corporation might conceivably take a different approach to the subject of absorption of exchange charges. Rather than to abandon the Board's present general interpretation or to take a strong position at this time against the Arnold Savings Bank and others following similar practices, he would suggest that the subject should be deferred for later consideration.

Governor Robertson said that, much as he disliked delaying tactics, this was a matter on which he would prefer to move slowly. As Governor Mills had suggested, conceivably the Federal Deposit Insurance Corporation would change its position following the appointment of a new chairman. He thought it would be a good idea to solicit the views of the Reserve City Bankers Association, which had maintained to the Board that the reserve city banks could police this matter adequately. As far as the Bolton letter was concerned, he would suggest telling Mr. Bolton that this subject was being taken up again with the Reserve City Bankers Association, and with the Bank Management Commission of the American Bankers Association. As to the Arnold Savings Bank matter, it was rather evident that a violation had occurred. However, he would be inclined to go no further at this point than to ask the bank to submit a statement of its position in order that the matter might be given full consideration. A delaying tactic seemed warranted, and he would hope to

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see the development of some policy that could be applied by both the Federal Reserve System and the Federal Deposit Insurance Corporation. The Board had tried taking a strong position, but apparently to little avail, and perhaps this was the time to change the Board's position, but only after soliciting the views of the Bank Management Commission and the Reserve City Bankers Association.

Governor Shepardson suggested the need for fixing a deadline; it seemed to him that the present situation should not be allowed to go along indefinitely. Admittedly, although the possibility seemed rather remote, there might be a change in the position of the Federal Deposit Insurance Corporation, but he hoped that the Board would set a deadline within which it would try to determine whether there was any possibility of such a change. If there was not, the Board should do something to rectify what amounted to an intolerable situation. He did not see how the Board could just maintain a regulation on its books while doing nothing to enforce it. One possibility would be to approach the Congress and say that the present statute presented an unenforceable situation. Then, if the Congress should not be inclined to pass legislation, perhaps the Board could in some way change its regulation.

There followed further discussion of possible procedures, including the appropriateness of further meetings with the Reserve City Bankers Association and the Bank Management Commission of the American Bankers Association, and the suggestion also was made that there might be further discussion with the Federal Advisory Council.

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Governor Balderston recounted difficulties that he had experienced in defending the present situation to Mr. Bolton when the latter visited the Board's offices, following which the discussion reverted to the question of the procedure that should be followed in the Arnold Savings Bank matter. Mr. Solomon suggested that probably little would be gained by asking the bank to submit a further memorandum since the facts seemed rather clear. The issue might only be irritated by going back to the bank unless the Board was prepared to take a definite stand.

Governor Mitchell agreed with the thought that the present situation was intolerable. He expressed the view that the Board should do something about it by not later than some predetermined date, perhaps the first of September.

In further discussion, Chairman Martin suggested reasons why the first of October might be a more practical deadline. As to the specific matter of the Arnold Savings Bank, he inquired whether it was the view of the Board to hold the matter in abeyance. There was general agreement that the matter should be held in abeyance, with no action on the part of the Board at this time.

Discussion then turned to the draft of letter to Mr. Bolton, and there was general agreement with a suggestion by Governor Balderston that the letter indicate that the Board was hopeful that the comprehensive study of Regulation Q by its staff would result in action before the end of the current calendar year.

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Accordingly, unanimous approval was given to a letter to Mr. Bolton in the form attached as Item No. 3.

Mr. Farrell then withdrew from the meeting.

Revision of Regulation K. There had been distributed to the Board under date of May 17, 1963, copies of letters received from supervised institutions, from the Federal Reserve Banks, and from other Government agencies regarding the proposed revision of Regulation K, Corporations Doing Foreign Banking or Other Foreign Financing Under the Federal Reserve Act, that had been published in the Federal Register as a notice of proposed rule making dated March 11, 1963. A letter from the Federal Reserve Bank of New York was subsequently distributed to the Board under date of May 29, 1963.

Under date of June 19, 1963, there was distributed, over the names of Governor Mitchell and Messrs. Shay, Goodman, and Doyle, a memorandum submitting for the Board's consideration an edited version of the published revision of Regulation K along with a clean copy of the redraft. The memorandum noted that several supervised institutions had requested an opportunity to discuss their criticisms of the published proposed revision with the Board or its representatives. Before scheduling any such discussions, however, it had seemed desirable that there be prepared a redraft that would reflect such of the suggestions received as seemed appropriate. If the Board was in agreement with the changes that had been made, it was proposed that the redrafted revision be

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circulated to the supervised institutions and others from whom comments had been received on the earlier draft.

Major policy issues involved in the redraft were set forth as follows:

(1) whether the definition of "engaged in banking" should be modified so as to apply only to corporations having total demand deposits and acceptance liabilities in excess of capital and surplus; (2) whether the issuance of debentures by any Edge corporation should be made subject to prior Board approval and to such conditions and requirements as might be prescribed; (3) whether the statement of national purpose should take the form of one of two alternatives set forth in the redraft. A fourth issue of major policy was whether the changes reflected in the redraft relating to investments in the stock of other corporations were in accord with the Board's views regarding liberalization of this section.

The memorandum also presented a section-by-section discussion of the more important changes that had been incorporated in the redraft. Finally, there was a listing of some of the more important suggestions received from supervised institutions and others that had not been included in the redraft.

In introductory remarks, Governor Mitchell expressed the hope that the redraft would lead to general discussion of substantive issues in a framework of action. He hoped it would be possible to dispose of this matter by giving the supervised institutions a chance to look at

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a revised draft version of Regulation K. It was his suggestion that the Board might proceed today by going through the redraft, section by section, following which it could consider the suggestions from supervised institutions and others that were not taken into account in the redraft.

Governor Mills said he did not think the Regulation as drafted was in a form in which it should be transmitted to supervised institutions and others for comment. He saw many vital defects that he felt should be considered at this time. The matter that concerned him most was one that also applied to the consideration of Regulation M, relating to powers of foreign branches of national banks, namely, the authority to guarantee and to make acceptances. One must recognize that Edge corporations and national banks operating foreign branches had authority to extend credit directly. Authority could also be sought to accept dollar exchange drafts. There was broad authority to accept in the normal course of business under the conventional understanding of what acceptances should cover; that is, credits secured by goods that would provide for the liquidation of the transaction at maturity. If the principles of guarantee were broadened, the Edge corporations would be offered an opportunity to guarantee practically at will any sort of transactions that suited their purposes. As to Regulation M, the same problem arose. What the supervised national banks sought at a conference with the Board in April was the right to engage in the issuance of surety bonds, which was

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historically not a kind of transaction that involved future and certain payment. Such authority, even if granted only to the best banks, was certainly contrary to any principle of bank supervision and regulation of which he had any knowledge. It would represent a reversion to unsound banking practices condoned by the regulatory authority.

As to the provisions of the redraft relating to operations of Edge corporations in the United States, Governor Mills said he was fearful that, instead of constituting a limitation, they extended a broad right to Edge corporations, in the operation of their offices in the United States, to undertake transactions that would not be identified with their foreign business as closely as they should be. These provisions lent weight to the concern expressed by banks in New York City, particularly, that the Edge corporations would be permitted to engage in interstate branch banking. That might or might not be the appropriate thing to do by statute, but it would not be a desirable thing to do by administrative decision. The same sort of consideration came up on the question of allowing Edge corporations to accept time deposits, which authority could be used to engage in interstate branch banking in contravention of the statutes.

As to the matter of guarantees, Governor Mills said that he considered the authority vague and dangerous. If there was to be an authority to guarantee, it should be strictly defined. In Regulation M, the guarantee authority sought by the banks, particularly First National

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City Bank of New York, was in effect an authority to supply an endorsement on various undertakings in the course of foreign branch operations. The same thing was true of Edge corporations, which would like to be able for a consideration either to accept paper of the British commercial type or to guarantee it. If this problem was translated into the present complex picture of the international balance of payments, a prime U. S. bank endorsement on hire purchase paper issued by a British institution at an interest rate substantially above the rate on U. S. Treasury bills would add an attractiveness to that paper such as to invite further outflows of funds from this country. On that basis alone, he felt that the proposal was invalid.

The history of this sort of thing, Governor Mills continued, was that in their foreign operations American banks had not concerned themselves greatly with the economies of the host countries, but instead had become deeply involved in exchange transactions that afforded a high rate of profit. If one went beyond that to grant authority to add endorsements to transactions of the sort contemplated, the Board would not be doing the host country any good and furthermore would be inviting American banks to involve themselves in areas of operations that were not appropriate. Again, looking at Regulation M, to limit guarantees to a percentage of capital and surplus would represent a feeble limitation, particularly when the banks most aggressively seeking such authority were the two largest in the United States and two others ranking high on the list. A percentage of capital and surplus would mean, in dollar terms, a substantial amount.

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Chairman Martin referred to the alternative statements of national purpose contained in the redraft. The first would state that the Congress, in enacting section 25(a) of the Federal Reserve Act, provided for the establishment of international banking and financial corporations operating under Federal supervision with powers sufficiently broad to enable them effectively to compete with similar foreign-owned institutions and to afford to the United States exporter and importer in particular -- and to United States commerce, industry, and agriculture in general -- at all times a means of financing their international business. It would also state that in light of the public purpose involved, Edge corporations should confine the scope of their operations both in the United States and abroad to practices consistent with United States standards of banking prudence. Activities in the United States should be restricted to operations clearly related to international or foreign business. In their activities abroad, Edge corporations should be able to operate, as best would meet their corporate policies, through branches, agencies, and correspondents or through direct and indirect ownership in foreign-chartered companies engaged in banking or other international or foreign operations so long as their credit and other activities were in the interest of the United States.

The alternative statement of national purpose would say that in order to promote the permanent and continuing development of the American export market and otherwise to further the Congressional objectives underlying enactment of sections 25 and 25(a) of the Federal

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Reserve Act, it was the Board's policy to implement those sections so that corporations operating thereunder could, consistent with sound banking and financial practices, compete effectively with similar institutions abroad.

The Chairman said that he liked the second alternative because it was more direct and because it emphasized the development of the U. S. export market. He saw no real purpose in American institutions operating abroad unless they could compete effectively. In his opinion, one must start from that premise. It might be that American financial institutions should not go abroad, but the whole tenor of the times was in the direction of encouraging such activities. Also, foreign financial institutions were coming more and more to establish themselves in the United States, with the supervisory authorities giving them wide latitude.

Governor Shepardson also expressed a preference for the second alternative statement.

Governor Robertson stated that he had two comments applying generally both to foreign branches of national banks and to Edge corporations. First, one of the main questions of the moment involved the extent to which corporations and banks in this country should be allowed to make investments abroad. He had found, during his recent European trip, that this question raised more eyebrows abroad than anything else; that is, the extent to which there was authorized a greater flow of capital from this country for the acquisition of corporations and businesses in Europe. Therefore, primary emphasis in the statement of national

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purpose should be placed upon effective competition, as in the second alternative statement. If the first alternative statement was used, it should highlight the fact that the credit and other activities of Edge corporations should be conducted primarily to facilitate the financing of U. S. international trade.

As to guarantees, Governor Robertson related certain information gained on his recent European trip. In one place the manager of the foreign branch of an American State-chartered bank said that he was not bothered by this, that he was operating under State law. In another place, the American branch officer said that his branch could not issue guarantees but did the same thing through letters of credit. If he had the guarantee power, however, he would use it because it was easier to use. On guarantees, Governor Robertson continued, he had changed his views, which originally were formulated on the basis of difficulties with guarantees he had found in South American countries. Consequently, he would suggest that the authority to guarantee be governed by an amount limitation. He would suggest limiting the total amount of guarantees to something in the nature of 50 per cent of the capital and surplus of any particular bank. This would preclude American banks from going wholesale into this business in a way that might jeopardize the standing of the bank in this country.

As to the issuance of obligations, Governor Robertson said that in some places abroad the branches of American banks were limited in the

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amount of credit they could extend to any individual borrower not on the basis of the capital and surplus of the parent bank in this country but the amount allocated to the particular foreign branch. In those cases, the branch abroad could not make a large loan by virtue of this limitation, so almost everything was done on a participation basis. In those loans, however, there was a guarantee involved. Where a branch had to use a letter of credit, it was put in a difficult position; all of the documents had to be rearranged. He found no national bank branch abroad which was willing to say, when pressed, that it did not issue guarantees. He thought it would be desirable to give the power of guarantee, but he would include an amount limitation.

Chairman Martin injected the thought that the Board ought to be as liberal as possible in view of the competitive conditions with which American institutions operating abroad were confronted. Such banks would have to fight their own battles to build up business, but the Board should not make conditions any more difficult for them than necessary.

Governor Robertson said that he felt this was right. In one respect, however, he thought the Board was proposing to be too liberal; namely, in respect to the authorization to invest in the stocks of foreign corporations, which meant a capital outflow for investment purposes.

The discussion then turned more specifically to the two alternative statements of national purpose.

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Governor Robertson said he would prefer the second alternative, while Governor Mitchell indicated that he would prefer the first alternative although he would not object to Governor Robertson's suggested modification thereof. He added that Governor King had informed him that he would prefer the second alternative statement. Governor Balderston said that he would be just as content to have the statement of national purpose omitted from the draft regulation entirely. If one was to be included, he felt upon initial reading that the first alternative statement told him more, except that upon analysis it seemed that the statement did little more than paraphrase the statute. He rather liked the point that Governor Robertson had made, keeping the stress on international trade, which was the matter of primary concern.

Chairman Martin then commented that the Board appeared to be about evenly divided. He said that personally he would be willing to side with Governor Mitchell on this question. Governor Shepardson also indicated that he would have no strong objection to the first alternative statement.

Accordingly, the consensus favored the first alternative statement, modified along lines that had been suggested by Governor Robertson.

Consideration next was given to section 211.2 of the redraft, which contained definitions. Here two alternative provisions were shown under one subsection. The first alternative would define "banking" as the business of receiving or paying out demand deposits. The second alternative would state that a corporation was "engaged in banking"

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Whenever it had aggregate demand deposits and acceptance liabilities exceeding its capital and surplus. In other words, an Edge corporation would be permitted to receive demand deposits and incur acceptance liabilities up to the amount of its capital and surplus without being considered to be "engaged in banking".

Mr. Shay explained that the second alternative reflected suggestions received from some Edge corporations. This would permit an actual meshing of banking and financing in one institution; it would permit some corporations to do both.

Mr. Hexter commented that Edge corporations engaged in banking were limited in certain ways by Regulation K. The meaning of the second alternative draft was that if an Edge corporation held relatively small amounts of deposits, the same precautions were not necessary that were called for when Edge corporations engaged substantially in the banking business.

Governor Mitchell pointed out that a single parent organization could still have two Edge corporations if it desired. The thought, however, was to make it possible for a U. S. bank to have only one Edge corporation unless it wanted to go heavily into the banking business abroad. As an alternative, the Board might consider completely eliminating the distinctions between banking and financing corporations.

After discussion, Governors Mills and Robertson indicated that they would prefer the first alternative draft definition, while the other

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members of the Board indicated that they would prefer the second. Accordingly, the consensus favored the second alternative.

As to section 211.3 of the redraft, relating to organization and capital stock, no substantive changes had been made in the published draft, and there was no indication of dissent from the currently proposed language.

As to section 211.4, relating to the issuance of obligations, two alternative provisions again were set forth. The first alternative, which was quite brief, would make the issuance of obligations by any Edge corporation subject to prior specific approval by the Board, which approval could contain such conditions and restrictions as the Board might see fit to impose in any particular case. The second alternative was much longer -- similar to the provisions presently contained in Regulation K. It would permit a corporation not engaged in banking to issue debentures without prior Board approval under the conditions therein set forth.

Governor Mitchell noted this was a section that had rarely been used. One could almost say that it had not been used at all. Rather than to include all of the language of the present Regulation, he felt that it would be better just to say that if an Edge corporation wanted to issue debentures, it should obtain the prior approval of the Board.

After discussion, the consensus favored the view expressed by Governor Mitchell. Accordingly, it was understood that the first alternative draft of language would be used.

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Section 211.5 of the redraft, relating to underwriting, sale, and distribution of securities was a new section but did not present any major change of substance from the published draft, its subsections having been taken from other parts of the published version.

It was the consensus that the provisions of section 211.5 of the redraft were acceptable.

There was also general agreement with the provisions of section 211.6, relating to branches and agencies.

Section 211.7 of the redraft related to operations of Edge corporations in the United States.

Governor Mitchell noted that here a question of substance was involved. The principal objections to this section had come from New York City banks, which did not want to be exposed to competition from banks in other parts of the country through the establishment by the latter of Edge corporations with offices in New York City. His personal feeling was that such competition would be good for the New York City banks, and he did not think there was any great danger of banks in other parts of the country engaging in a local business through Edge subsidiaries. Further, he pointed out that the New York City banks had representatives all over the United States working up business for them.

Governor Mitchell went on to say that in the first subsection, which expressed a general policy with regard to transactions of Edge corporations in the United States, an attempt had been made to spell

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out exactly what was meant by operations usual to the financing of international commerce, with an enumeration of types of permissible transactions. As to the second subsection, relating to the employment of funds, he recalled that Regulation K currently allowed more latitude for the investment of funds in the United States. This had been tightened on the theory that an Edge corporation should not have the right to invest in the United States except to obtain some return on its funds held in the form of bank deposits, bankers' acceptances, and U. S. Government obligations. The draft regulation proceeded on the theory that an Edge corporation was organized for the primary purpose of carrying on an international business. Governor Mitchell also commented on the subsections of this section with regard to the receipt of deposits and other permissible activities.

With regard to the provision in this section that would authorize an Edge corporation to guarantee extensions of credit it could make or obligations it could acquire, Governor Robertson said that he felt that the guarantee provisions of Regulations K and M ought to mesh. He suggested coming back to this point after the Board had discussed the draft of a revision of Regulation M.

Governor Mills said he did not share Governor Mitchell's opinion that the traveling representatives of commercial banks performed the same functions that an Edge corporation would perform. He saw a vast distinction. The tenor of this section of the draft regulation was, in his opinion, to permit interstate branch banking, for example, by allowing

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the receipt of certain types of deposits, including time money. In all, he felt that the provisions of this section would allow banks, through Edge corporations that were domiciled in other States, to engage in interstate branch banking in contravention of the statutes. He did not think it was appropriate to legislate by administrative action.

In further comments, Governor Mills expressed particular aversion to the indication in this section that it would ordinarily be considered incidental to the international or foreign business of an Edge corporation for it to engage in the United States in guaranteeing extensions of credit it could make or obligations it could acquire. He objected to the use of the word "guarantee" without defining it properly. He would make an Edge corporation that wanted such authority explain just what it wanted to guarantee.

After further discussion along these lines, Mr. Furth said, in reply to a question, that the memorandum before the Board had neglected to consider the present status of the U. S. balance of payments. There was nothing in the memorandum about the balance of payments. He inquired whether it was the Board's intent to make it easier to permit the exportation of capital to developed countries abroad.

Chairman Martin commented that he could understand this point of view. In writing a Regulation K, however, he did not feel that the Board could deal with the balance of payments problem.

Governor Robertson suggested that the revision of the Regulation could make it easier for Edge corporations to use funds that were already

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abroad. In other words, it could enable Edge corporations to compete more effectively in those countries, but it should not facilitate an additional outflow of capital for investment purposes.

Governor Mitchell noted that for many years the Edge Act concept had not been used to any great extent. Thus far, operations under that Act had had little effect on the balance of payments. As to the possibility that an Edge corporation might become engaged in the future in some practice hostile to the interests of the United States, the proposed regulation provided for the Board to obtain quarterly reports. Also, the Edge corporations would be examined annually. There would be ample opportunity to obtain information.

Chairman Martin suggested that this sort of regulation should be thought of in terms of its being applicable under both surplus and deficit balance of payments conditions.

Governor Mitchell noted that the intent of drafting had been to make Regulations K and M mutually consistent in terms of their restrictiveness or freedom to operate.

A consensus then developed in favor of the provisions of section 211.7 as redrafted, except that it was understood that the provisions of subsection (d) with respect to the guaranteeing of extensions of credit or obligations would be reconsidered after the Board had discussed the guarantee provisions of Regulation M.

As to section 211.8, dealing with acceptances, it was noted that there were no substantive changes from the draft that had been published.

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It was also noted that the provisions were tighter than in the existing Regulation K and that they were tied fairly closely to the Board's Regulation C.

This brought the discussion to section 211.9, relating to investments in stock of other corporations.

Governor Mitchell stated that it had been the thought, in preparing the redraft, to permit Edge corporations to make stock investments without prior Board approval to the extent that this could be done without running counter to the basic purposes of Regulation K. Therefore, the redraft provided that Edge corporations, without specific prior consent, could acquire stock of other corporations (other than through a broker, dealer, or stock exchange) provided (1) that the acquisition was incidental to an extension of credit by the Edge corporation, or by the bank controlling it, to the corporation whose stock was so acquired; (2) that it represented less than 25 (or in the alternative, 50) per cent of the voting stock of a corporation engaged in banking; or (3) that it was likely to further the development of U. S. foreign commerce, provided that no acquisition might exceed 25 (50) per cent of the voting stock of a corporation engaged in banking. A corporation also would be permitted to request an advisory opinion of the Board as to whether a proposed stock acquisition was covered by the general consent.

There followed a general discussion of these provisions centering around the question whether general consent should be granted for an Edge corporation to acquire the stock of a foreign corporation if such acquisition

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was "likely to further the development of United States foreign commerce." While there was some sentiment in favor of deleting this provision, Governor Mitchell noted that a fair number of cases came up periodically that did not seem to warrant review by the Board. The point of the redraft was to be responsive to the view of Edge corporations that maintained they were not being permitted to use independent judgment. In his opinion, the Board ought not substitute its own judgment unless there was good reason for doing so.

Governor Robertson indicated that he would prefer to eliminate this provision and to continue passing on each proposed stock acquisition, other than those incidental to an extension of credit to the corporation whose stock was to be acquired or those involving the acquisition of less than a certain percentage of the voting stock of a corporation engaged in banking. Then, in periods when an excessive capital outflow was undesirable, the Board could be strict.

Question was raised whether the Board wanted to be bothered by passing on all investments in foreign corporations. Governor Robertson said that he would be inclined to discourage all investments at this particular time, while Chairman Martin expressed an opposite opinion.

The meeting then recessed and reconvened at 2:00 p.m. for continuation of the Regulation K discussion at which time Chairman Martin and Messrs. Balderston, Mills, Robertson, Shepardson, and Mitchell were present. Messrs. Sherman, Kenyon, Fauver, Solomon, Hexter, Shay, Goodman, Doyle, Partee, and Poundstone of the staff also were present.

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There were distributed at this time alternative substitutes for the subsection of section 211.9 relating to general consent for stock investments by Edge corporations. The first alternative substitute would follow the pattern of the redraft of Regulation K, previously discussed, except that it would grant general consent in any situation that was "otherwise" likely to further the development of United States foreign commerce. The second alternative substitute would grant general consent only (1) where a stock acquisition was incidental to an extension of credit by the Edge corporation, or the bank controlling it, to the corporation whose stock was to be acquired or (2) represented less than 25 (50) per cent of the voting stock of a corporation engaged in banking.

Prior to consideration of these alternatives, however, Governor Mills noted that the redraft of Regulation K eliminated certain language found in the published version, which specified that prior written consent would be required with respect to the acquisition of any stock of a corporation engaged in banking (1) if the Edge corporation issued or had outstanding any debentures, bonds, promissory notes, or similar obligations except promissory notes due within one year evidencing borrowing from banks or bankers or (2) if it engaged in the business of underwriting, selling, or distributing securities, with certain exceptions. In such circumstances, according to the published version, consent would not ordinarily be granted. Further, specific prior consent would be required for the acquisition of (1) any stock in any corporation which in turn held significant amounts of stock in, or in any manner controlled the

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management of, other enterprises or (2) stock in any other situation not covered by limited general consent provisions. Specific consent would not be given if a proposed stock acquisition was likely to be inconsistent with United States foreign policy or inimical to the then current international economic objectives of the United States. In place of this language, the redraft of Regulation K would state that prior specific consent of the Board was required with respect to the acquisition or holding of stock by an Edge corporation in any situation not covered by the paragraph relating to general consents.

Governor Mills indicated that he felt the elimination of language contained in the published version constituted a serious omission.

Governor Mitchell replied that this matter had been discussed by him with the staff at some length. If stock acquisitions of the type about which there might be some apprehension should occur, the Board could take steps on the basis of examinations and required reports from the Edge corporations to amend the regulation.

Governor Mills noted that if the language were left in, Edge corporations could still seek prior approval. It seemed to him important to anticipate problems before they arose rather than to wait for their existence.

Mr. Hexter noted that the previous language would have permitted Edge corporations to come in for prior approval and that this would also be true in the case of the redraft. With or without the inclusion of

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the language contained in the earlier version, there was no automatic prohibition against acquisitions such as described.

Turning to the general consent provisions, Governor Robertson said that the second alternative substitute (the more restrictive) was just about what he would like to see included in the regulation.

Mr. Goodman pointed out that the general consents currently outstanding had cut down the number of cases required to come before the Board. If the second alternative draft were adopted, there would be more cases coming before the Board.

Governor Robertson then suggested that there be an "escape clause" to cover nuisance cases.

Governor Mitchell observed that the issue was whether or not the Board wanted to consider every individual acquisition of stock, no matter how small, unless it was in combination with a loan or involved a purchase of bank stock and in addition would further the development of U. S. foreign commerce. In effect, this would mean a very limited area of general consent. The first alternative substitute draft could admittedly leave a loophole, but the Board would maintain control through the required reports and through examinations. This would obviate the need for prior approval in cases where it might be presumed that the public interest would not be impaired. If there proved to be a hazard, he felt that it could be quickly remedied upon periodic review of whatever the Edge corporations had done.

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Governor Shepardson said he would concur in that approach, but Governor Robertson felt that it would leave a loophole that would be of concern. The Board would not be able to ascertain the aggregates of investment for some period of time, and in the meantime the balance of payments problem would be aggravated. He again suggested, however, an escape clause to cover nuisance cases.

An escape clause for investments up to \$200,000 in any one corporation was then proposed and discussed.

During this discussion, Chairman Martin remarked that the basic issue in revising Regulation K was whether to liberalize or not, to which Governor Robertson replied he would not object to liberalization, except as it extended to investments abroad at this time. Chairman Martin then commented that it was difficult to interpret the meaning of foreign trade. To the extent that the Edge corporations were violating any fundamental principle, they should be stopped, but the Board should not make it more difficult than necessary for them to develop business abroad. It was difficult to develop business in a highly competitive world, and the Edge corporations wanted to find out whether they were able to do it or not.

Governor Mills suggested that if a dollar limitation (escape clause) was included in the redraft of Regulation K that was submitted to the supervised institutions, and if such limitation was found unacceptable to them, they would no doubt make representations to the Board, following which the Board could reconsider the matter.

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After further discussion, a consensus was reached to include a general consent for Edge corporations to make investments that were "otherwise" likely to further the development of United States foreign commerce up to a limit of \$200,000 in any one foreign corporation without specific prior consent of the Board.

As to the question whether general consent should be given to the acquisition of less than 25 (or in the alternate, 50) per cent of the voting stock of a corporation engaged in banking, certain reasons were advanced by members of the staff in favor of a 25 per cent figure, and this was agreed upon.

As to the provisions of section 211.9, relating to reports by Edge corporations, the staff was authorized to work out certain clarifying language to cover certain points referred to by Mr. Shay, one of which had been mentioned to the staff by a member of the Board.

The discussion then turned to section 211.10, relating to general limitations and restrictions. It was noted that the provisions of this section had the effect of limiting the amount of guarantees that might be issued by an Edge corporation. It was decided, however, to consider the matter of guarantees in connection with review of the provisions of the draft of Regulation M that was to be discussed later during this meeting.

This concluded the review of the section-by-section analysis of the redraft of Regulation K. There were no questions indicated by the

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Board with respect to section 211.11, relating to corporations with agreements under section 25 of the Federal Reserve Act, nor were there questions raised with regard to the suggestions of supervised institutions and others concerning the published revision of Regulation K that had not been incorporated in the redraft.

Revision of Regulation M. Public Law 87-588, dated August 15, 1962, amended section 25 of the Federal Reserve Act to empower the Board to issue regulations authorizing foreign branches of national banks to exercise additional powers usual in connection with the banking business abroad (other than engaging generally in the securities or merchandising business). On January 25, 1963, a proposed revision of Regulation M, Foreign Branches of National Banks, was published for comment in the Federal Register. The comments received were summarized in a memorandum to the Board of March 27, 1963, to which copies of the principal letters were attached. In accordance with requests contained in letters from the four major national banks having branches abroad, several members of the Board and members of the Board's staff met with representatives of the national banks on April 9, 1963, to discuss the over-all approach and certain substantive aspects of the proposed revision. The main contention of the banks was that, instead of authorizing specific additional powers, Regulation M should contain a general authorization for foreign branches to exercise any powers (other than those excluded by statute) that were usual to the business of banking in places where they were operating. The national banks then submitted an exhaustive review of

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the legislative history of Public Law 87-588. After careful consideration, however, the Board's staff believed that the legislative history seemed clearly to contemplate the specific power-by-power approach followed in the proposed revision of Regulation M. It was recommended, therefore, that Regulation M contain no general authorization of the type suggested by the banks.

There had now been distributed a memorandum from Messrs. Shay, Goodman, Furth, and Doyle dated June 21, 1963, to which there was attached a redraft of Regulation M, a proposed conforming amendment to Regulation H, Membership of State Banks in the Federal Reserve System, and a proposed revision of section 213.4 of Regulation M submitted on behalf of the national banks represented at the meeting with the Board on April 9, 1963.

The memorandum noted that, apart from the question of over-all approach, the main objection raised by the national banks was that the provisions of the published revision relating to guarantees, acceptances, and investments in securities were so restrictive as to be of little help to them in meeting foreign competition. It was with this in mind that the four banks had submitted the redraft of section 213.4.

The staff redraft of Regulation M reflected three major modifications of the published version. It would grant, in rather broad terms, the power to issue guarantees and make similar agreements that were closely related to the banking business of a particular

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branch and usual in the place where it was operating, with the stipulation that each such guarantee or agreement must specify the maximum pecuniary liability assumed thereunder. Moreover, a national bank (including all its foreign branches) could not have outstanding for any one person aggregate guarantees and extensions of credit (unless excepted from all limitations under section 5200 of the Revised Statutes) in excess of 10 per cent of the bank's capital and surplus. The redraft also would allow foreign branches to accept "finance" and "services" drafts, as well as drafts arising out of the shipment or storage of goods, if such was usual in the banking business at the place where the branch was operating, provided that no draft or bill of exchange could be accepted if it had a maturity of longer than 12 months. Moreover, the security and amount limitations contained in Regulation C would apply. The published version had also been modified to permit foreign branches to acquire the securities (including stock) "of the central bank, clearing houses, governmental establishments, and development banks of the foreign country where it is located" to the extent usual at the places where business was transacted, provided that such investments were not to exceed one per cent of the total deposits reported for the preceding year-end call date unless required as a legal prerequisite to engaging in the banking business in the particular foreign country. This one per cent limitation would not encompass

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"investment securities" that a bank might purchase under section 5136 of the Revised Statutes. The redraft also incorporated a number of less important changes from the published version, as specified in the memorandum.

At the beginning of discussion of the redraft of Regulation M, Governor Balderston stated that he would hope that the applicable provisions of Regulations M and K might be made mutually consistent. He asked whether there was agreement in principle that Regulation M should parallel Regulation K in all pertinent substantive features; if so, the Board could concentrate on exceptions.

There was general agreement that to the extent feasible, it would be desirable for the provisions of Regulation K and Regulation M to be compatible.

At this point Mr. Shay commented generally on the proposed redraft of Regulation M and background considerations, his comments being based substantially on the staff memorandum that had been distributed.

Chairman Martin inquired whether there was any member who felt that the Board should encourage turning over to the Comptroller of the Currency its statutory authority with respect to the regulation of foreign branches of national banks. None of the members of the Board present indicated that they would favor such a transfer.

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Governor Robertson stated that on his recent trip to Europe all branch managers with whom he had talked saw a need to be able to make loans for housing for executive members of their staffs. They had indicated that a \$25,000 loan maximum would cover everything necessary, and Governor Robertson said he saw no reason to exclude the power to make such loans.

Mr. Doyle said he understood that New York law provided a \$20,000 limitation for foreign branches of State banks. Accordingly, it was agreed there should be a provision in the revised Regulation M granting the power for foreign branches of national banks to extend credit to branch executive officers for the acquisition of residential quarters up to an individual limit of \$20,000.

Mr. Shay then commented on various provisions of the redraft of Regulation M, following which Governor Mills said that he continued to be seriously concerned about the liberality of the guarantee powers. It seemed to him that they should be defined more rigidly. The same thing held true in the case of the power to make acceptances, which, as it stood, was a wide open permit. To him it was in conflict with section 13 of the Federal Reserve Act, which he would presume to constitute the senior statutory authority.

When Mr. Shay noted that the purpose of Public Law 87-588 was to provide authority to remove restrictions on the operations of foreign branches of national banks, Governor Mills commented that it was always

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a question whether, in the absence of specific indication, a new law took precedence over previous law. He added that if the Federal Reserve System was seriously concerned about controlling, within the limits of its power, the U. S. balance of payments deficit, then to allow the free use of these powers would be contrary to its position in the balance of payments area. If a foreign branch could accept hire purchase paper of British source, and if such accepted paper provided a yield higher than available on U. S. Treasury bills, the inducement to American concerns to invest in such paper was substantial. The same thing would be true in respect to guarantees. In the redraft of Regulation M, there was no effective limitation on that authority.

Governor Robertson suggested that there should be an aggregate limitation, perhaps 50 per cent of capital and surplus, on the total amount of guarantees that any bank could issue. (The redraft of Regulation M would permit foreign branches of national banks to guarantee customers' debts or otherwise agree for their benefit to make payments on the occurrence of readily ascertainable events, but it was provided that each such guarantee or agreement must be closely related to the banking business of the branch and should limit its maximum liability thereunder; and no national bank was to incur such liabilities for any customer in an amount greater than that by which 10 per cent of its capital and surplus exceeded the aggregate of "obligations" in respect of which it was subject to any limitation under section 5200 of the Revised Statutes.)

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In discussion of Governor Robertson's proposal, Governor Mills said that he would go along with it, but beyond that he would want to define broadly the kinds of transactions that would be eligible for guaranty. After Governor Robertson said that at the least he would exclude the power to issue performance and surety bonds, Governor Mills suggested using some of the language from the proposed draft of section 213.4 that had been presented through the firm of Bingham, Dana & Gould, Boston, Massachusetts, on behalf of the four national banks that were represented at the conference with the Board on April 9, 1963. According to this draft a foreign branch would be authorized to execute and deliver guarantees provided (1) that the bank's obligation thereunder was for the payment of money only, (2) that the bank's obligation to pay thereunder was dependent on the happening of an event described in the instrument and the occurrence of which could readily be ascertained by the bank itself, (3) the customer for whose account the guarantee was issued was unconditionally bound to reimburse the bank on demand or within a specified period of time for any payments made by the bank pursuant to the guarantee, and (4) the bank held an earmarked deposit or other security satisfactory to it covering its liability as guarantor or, if such liability was not so secured, (5) the aggregate of all guarantees not so secured that were outstanding at any time for account of any one customer should not exceed 10 per cent of the unimpaired capital and surplus of the bank.

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After further discussion, Governor Balderston said he sensed there was some sentiment developing within the Board to take the language proposed by the four banks and merge it with an over-all limitation such as Governor Robertson had suggested.

Governor Shepardson said he would not argue about such an approach. On the question of the broader approach to Regulation M, he noted that the Board was dealing with a law implementing a decision of the Congress to give foreign branches of American banks an opportunity to compete more effectively with banks in the countries where they operated. Against that background, it seemed to him that it would be desirable to develop at the start as broad a regulation as seemed reasonable. Through examinations, the Board could then follow developments to see if abuses developed, and could build any necessary fences accordingly. His general approach, therefore, was on the liberal side. On the question of the balance of payments, he was indeed concerned. But he did not think it was the proper approach to try to get at the balance of payments problem through this type of regulation. He would prefer the use of guarantee provisions as they appeared in the redraft of Regulation M, but he was not inclined to argue too much about details within the framework of the broad approach that he had outlined.

Other members of the Board indicated that they would be willing to accept something along the lines of the draft submitted on behalf of the national banks in combination with the paragraph in the staff redraft

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of Regulation M, and with the addition of an aggregate limitation on the amount of guarantees. Governor Mills suggested that some examples of permissible transactions be included, to which Governor Robertson added that the examples should not be set forth in such manner as to indicate that they necessarily covered every kind of transaction that was eligible for guarantee.

Consideration then turned to section 213.4(b) of the redraft of Regulation M under which a foreign branch would be empowered to accept drafts or bills of exchange drawn on it having not more than 12 months' sight to run, exclusive of days of grace, which would be treated as "commercial drafts or bills" for the purposes of Regulation C.

Governor Mills said that he thought the draft provisions were far too liberal. They would, in his opinion, completely contravene the principle that bankers' acceptances should essentially be acceptances representing self-liquidating commercial transactions.

Governor Robertson asked if the proposed provisions were more liberal than New York statutes applicable to operations of foreign branches of State-chartered New York banks, and Mr. Goodman said he did not think so. Mr. Hexter said that, to be certain, it would be necessary to look into the New York State law more closely. Governor Robertson then said that he would favor putting national banks on exactly the same plane as State banks.

Governor Shepardson indicated that he would be agreeable to the paragraph in the staff redraft, and Governor Mitchell said that he favored the principle of treating both classes of banks alike.

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There was no substantive discussion regarding the remaining provisions of the redraft of Regulation M, it being indicated that they were generally acceptable, subject to certain editorial or clarifying changes.

Reverting to the subject of guarantees, Governor Mitchell inquired whether what was being proposed with regard to Regulation M, in light of today's discussion, would introduce any substantial inconsistency between Regulations K and M. Governor Robertson suggested that the elimination of inconsistency would be something for the staff to work out, and Governor Balderston noted that the results of the staff work would be available for Board review before Regulations K and M were finally adopted.

Question then arose with regard to the further procedure to be followed in respect to Regulations K and M. It was suggested, after discussion, that clean drafts of both Regulations be prepared on the basis of today's discussion and that such drafts be transmitted to the supervised institutions, the Federal Reserve Banks, and other interested parties for review and for comments and suggestions within a relatively short period of time so that the final adoption of the two revised Regulations would not be delayed unduly. There was general agreement with this suggestion as to procedure, and it was understood that the necessary implementing steps would be taken.

All of the members of the staff then withdrew except Messrs. Sherman, Kenyon, Solomon, Hexter, and Partee.

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Stock market credit. There had been distributed a memorandum from Mr. Noyes, Director of the Division of Research and Statistics, dated June 14, 1963, in which it was noted that the rapid rise of stock market credit in recent months suggested reappraising the 50 per cent margin requirement that was adopted in July 1962. Since that time the amount of credit represented by net debit balances carried with New York Stock Exchange member firms and borrowings for purchasing and carrying securities at weekly reporting member banks had risen 23 per cent to \$6 billion at the end of April. Preliminary indications were that there probably had been a further substantial rise in May, though specific figures were not yet available. The memorandum discussed several arguments that might be given for and against increasing margin requirements in the present circumstances, and also included a rather detailed review of recent developments with respect to stock market credit.

There had been distributed subsequently a memorandum from Mr. Noyes dated June 18, 1963, reporting that end-of-May figures for customers' net debit balances at New York Stock Exchange member firms showed a further increase during the month of \$208 million. Total customer credit in the stock market, including bank loans to others than brokers and dealers, had now reached nearly \$6.3 billion, one-eighth higher than at the December 1961 price peak and 28 per cent higher than the low in July 1962. Stock prices on average had increased about one-third since the market break in the spring of 1962. Net debit balances had risen slightly more than a third over the same period of time.

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At the request of the Board, Mr. Partee reviewed recent stock market credit developments at some length, his remarks being based generally on the information contained in the memoranda that had been distributed.

There followed a general discussion by the Board of reasons for and against a possible increase in margin requirements in light of current developments. There was general agreement that no action should be taken at the present time but that developments should continue to be followed closely, with consideration of the situation by the Board periodically.

All of the members of the staff except Mr. Sherman then withdrew from the meeting.

Foreign travel. As recommended in a memorandum dated June 25, 1963, from Mr. Furth, Adviser, Division of International Finance, the Board authorized Robert L. Sammons, Adviser in that Division, to travel to Paris, France, at Board expense during the approximate period July 13-18, 1963, to attend a meeting of Working Party 2 of the Economic Policy Committee of the Organization for Economic Cooperation and Development, to be held July 15-16.

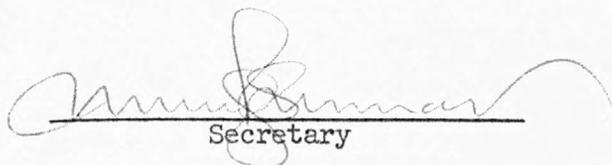
The meeting then adjourned.

Secretary's Notes: Governor Shepardson today approved on behalf of the Board a letter to the Federal Reserve Bank of Atlanta (attached Item No. 4) approving the appointment of Louis R. Ullenberg as assistant examiner.

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Governor Shepardson authorized on behalf of the Board on May 29, 1963, Mr. Solomon, Associate Adviser in the Division of Research and Statistics, to travel to Paris, France, during the period June 15-22, 1963, to attend a meeting of Working Party 3 of the Economic Policy Committee of the Organization for Economic Cooperation and Development and to visit the Bank of France.



Secretary

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

Item No. 1
6/26/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 26, 1963

Board of Directors,
Pacific State Bank,
Hawthorne, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an investment of \$25,000 in bank premises by Pacific State Bank, Hawthorne, California, to purchase land for parking facilities at the Lennox Branch.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

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Item No. 2
6/26/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 3, 1963.

Mr. H. Prentice Browning, President,
The Indianapolis Clearing House Association,
510 Merchants Bank Building,
Indianapolis 4, Indiana.

Dear Mr. Browning:

The resolution by the Indianapolis Clearing House Association dated May 21, 1963, petitioning the Board of Governors of the Federal Reserve System to give consideration to the establishment of a branch of the Federal Reserve Bank of Chicago in Indianapolis, Indiana, which you forwarded to Mr. Scanlon, President of the Federal Reserve Bank of Chicago, has been brought to the Board's attention.

Experience going back to the organization of the Federal Reserve System has indicated that any proposed establishment of a Federal Reserve office is a matter that goes far beyond the interests of the particular city in which such an office may be located. Within that concept, however, the Board has taken the position that it will give consideration to any well-supported request for a new Federal Reserve branch.

Since the Federal Reserve Bank of Chicago serves the area in which Indianapolis is located, it would be appropriate for the Indianapolis Clearing House Association to arrange discussions with the Federal Reserve Bank of Chicago for the purpose of defining types of information that might be developed to show whether the establishment of an Indianapolis Branch would promote the public interest. This might include, (1) information as to what points would have better or worse check collection and cash services from the new branch than they have from the Federal Reserve office now serving them, and (2) the views of the banks in the area that would be served by the proposed Indianapolis Branch as to whether they would favor or oppose the establishment of such a branch, and why.



Mr. H. Prentice Browning,

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A copy of this reply is being furnished Mr. Scanlon, who will of course be glad to discuss with you the development of further information having a bearing on the possible establishment of a Reserve Bank branch in your City.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

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Item No. 3
6/26/63

OFFICE OF THE CHAIRMAN

July 1, 1963

Mr. James C. Bolton, Chairman,
Rapides Bank & Trust Company,
Alexandria, Louisiana.

Dear Mr. Bolton:

Your letter of June 17, 1963, regarding absorption of exchange has been read with interest, and copies have been distributed to all members of the Board and appropriate members of the staff. Your comprehensive presentation of general considerations regarding the intent of Congress in prohibiting the payment of interest on demand deposits, of the various actions taken by the Board from time to time in applying the statute through its Regulation Q, and of the means being used by some banks to avoid the effects of the Board's Regulation is a most helpful document for us to have.

I was particularly interested in your statement that the public is, to a large extent, receiving par value for checks drawn on nonpar banks as an end-result of exchange absorption by other banks. This is of significance in connection with the desirable goal of having money instruments worth their face value, although it does not dispose of the fact that the intent of the statute prohibiting payment of interest on demand deposits, as interpreted by the Board, is being defeated to the extent that banks are absorbing exchange charges as a means of compensating other banks or commercial depositors for the use of their balances.

As to your suggestion for a change in Regulation Q that would permit equal competition among banks in a given area, I can only repeat the comment made when you were here that both the concept embodied in this suggestion and the problem of getting acceptable regulatory language raise serious doubts as to its practicability. However, I have asked our Legal Division to look further into the possibilities of such a proviso in the Regulation. In fact, the Board has asked the Legal Division and other members of the staff to undertake a comprehensive study of Regulation Q at this time with

Mr. James C. Bolton

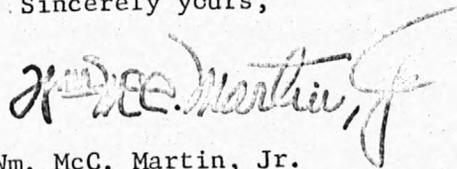
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a view to considering various matters that have made administration of this Regulation difficult and time consuming. It will be about October before this broad study is completed and the Board has had an opportunity to consider it, but this is indeed an appropriate time for a thoroughgoing review of the whole subject.

I agree with you that thoughtful discussion and study of this subject, supported by facts of the sort you have written about so comprehensively, adds to one's knowledge, and I appreciate your having taken the considerable amount of time and effort that is apparent from your letters to give the Board the benefit of your knowledge and views. Since our thoughts on the subject here at the Board seem to be largely in accord with those you express (we, of course, have not reached even a tentative decision as to whether or how Regulation Q should be amended), I don't believe that a special trip to Washington on your part would add to the materials we have for study at this time. We shall, however, feel free to call upon you for further information if that may seem helpful in the course of the study undertaken by the Board.

In the meantime, may I say that it is reassuring to have a member banker who expresses his regard for the Federal Reserve System as you do and who, at the same time, is articulate and persistent in urging a change in one of the Board's Regulations when he believes it to be a key factor resulting in an inequitable competitive situation for his and other member banks.

Sincerely yours,



Wm. McC. Martin, Jr.

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

Item No. 4
6/26/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 26, 1963



Mr. J. E. Denmark, Vice President,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Denmark:

In accordance with the request contained in your letter of June 20, 1963, the Board approves the appointment of Louis R. Ullenberg as an assistant examiner for the Federal Reserve Bank of Atlanta. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.