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Minutes for September 4, 1963

To: Members of the Board
From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin	<u>(M)</u>
Gov. Mills	<u>[Signature]</u>
Gov. Robertson	<u>R</u>
Gov. Balderston	<u>CCB</u>
Gov. Shepardson	<u>[Signature]</u>
Gov. King	<u>[Signature]</u>
Gov. Mitchell	<u>[Signature]</u>

Minutes of the Board of Governors of the Federal Reserve System
on Wednesday, September 4, 1963. The Board met in the Board Room at
10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Robertson 1/
Mr. Shepardson

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Molony, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Conkling, Assistant Director, Division of
Bank Operations
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Smith, Assistant Director, Division of
Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Thompson, Assistant Director, Division of
Examinations
Miss Hart, Senior Attorney, Legal Division
Mr. Lyon, Review Examiner, Division of Examinations

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

	<u>Item No.</u>
Letter to Girard Trust Corn Exchange Bank, Philadelphia, Pennsylvania, approving the establishment of a branch at 8616-18 Germantown Avenue.	1

1/ Withdrew from meeting at point indicated in minutes.

9/4/63

-2-

	<u>Item No.</u>
Letter to Bank of Carthage, Carthage, Missouri, approving the establishment of a branch at 200 West Third Street.	2
Letter to United California Bank, Los Angeles, California, approving the establishment of a branch in Laguna Niguel, Orange County.	3
Letter to United California Bank, Los Angeles, California, approving the establishment of a branch in the Laguna Hills Retirement Community, Orange County, with the understanding that the branch would be opened in temporary quarters and that such operations would be discontinued when permanent quarters became available.	4
Letter to Bank of America, New York, New York, granting an extension of time for the opening of a Rome-Due Pini district agency by Banca d'America e d'Italia, Milan, Italy.	5
Letter to the Federal Reserve Bank of Chicago, regarding whether section 32 of the Banking Act of 1933 prohibits interlocking service between member banks and (1) the advisory board of an open-end investment fund (PLICO Fund, Inc.); (2) the fund's incorporated investment advisor; (3) the insurance company sponsoring and apparently controlling the fund.	6
Letter to the Secretary of the Federal Advisory Council suggesting topics for discussion at the forthcoming meeting of the Council and the Board.	7

Branch applications in California. Pursuant to the request at the meeting on August 8, 1963, there had been distributed for the Board's information a memorandum from the Division of Examinations dated September 3, 1963, showing the status of pending and approved branch applications filed by larger member banks in the State of California.

9/4/63

-3-

Governor Robertson recalled that some time ago there was a suggestion that the Board's staff confer with the other bank supervisory agencies regarding the branch banking situation in California. Mr. Solomon replied that the staff had not pursued the matter further than to keep a close check on applications by State member banks to be sure there was no undue anticipation of branch needs. As to nonmember insured banks, there had been no problem. The staff had not attempted to work out any understanding with the Office of the Comptroller of the Currency, having understood that such was not the intention of the Board. Governor Robertson then said that he was not contending that there were necessarily too many branches in California; he was aware of the growing population of the State. However, he felt that the situation should be watched closely. It seemed likely that this year alone 250 or more branches would be established. Although a survey made by the Board's staff about two years ago indicated that the number of branches in the State in relation to population had not grown substantially, it appeared that such a trend might be in process at the present time. In any event, the situation should be watched. There was a race for branches going on, and it should not be allowed to get out of hand.

Underwriting authority of member banks (Item No. 8). In a letter dated August 23, 1963, transmitted through the Federal Reserve Bank of New York, Morgan Guaranty Trust Company, New York, New York, inquired with respect to the authority of State member banks to underwrite securities issued by States and political subdivisions thereof. Particular

9/4/63

-4-

reference was made to \$35,750,000 of public building bonds and public school plant facilities bonds of the State of Washington, bids for which were to be received by the Finance Committee of the State today. Morgan Guaranty pointed out that the Comptroller of the Currency had held that said bonds were eligible for underwriting by national banks.

In its letter of August 26 transmitting the inquiry, the Federal Reserve Bank of New York expressed the view that State member banks were not permitted under the law to underwrite or deal in such securities, even though the Comptroller had concluded that national banks might do so. The Reserve Bank agreed with the conclusion expressed in the Board's letter to the Comptroller of July 19, 1963, that "...the Federal banking laws do not authorize the Comptroller of the Currency to expand or contract the coverage of the underwriting, dealing or investing powers..." The Reserve Bank opposed redefining "general obligations" on a less restrictive basis for legal reasons and also as a matter of policy. As a matter of law, the legislative history and subsequent court decisions, administrative rulings, and interpretations had clearly defined "general obligations" as those backed directly by the full taxing power of the issuing state or municipality. This definition had been generally accepted, and in the view of the Reserve Bank it should not be changed by administrative determination. As a matter of policy, the Reserve Bank felt strongly that the right of commercial banks to deal in and underwrite securities should not be expanded. The separation of commercial banking

9/4/63

-5-

from investment banking, with a very few exceptions, was clearly a major purpose of the banking legislation of the 1930's, and the results had been entirely beneficial. The abuses that led to the legislation had been prevented, and there had come into being a specialized investment banking industry that had developed financing mechanisms that functioned with efficiency, were adequately capitalized, and could attract more capital if needed as long as operations were profitable. In the Reserve Bank's opinion, there already existed adequate and healthy competition in the investment banking field. The Reserve Bank hoped that views to such effect would be presented by the Board to the House Committee on Banking and Currency during hearings on this subject scheduled to commence shortly. It recommended that the Board publicly reaffirm its position that State member banks were permitted by statute to deal in or underwrite only such State or municipal securities as constituted "general obligations" within the established meaning of the term. This meant securities that were issued by Governmental units that had the power of general taxation, and backed by the full faith and credit of the issuer.

There had been distributed to the Board a draft of letter to Morgan Guaranty Trust Company that would express the opinion, for reasons stated, that the Washington State bonds in question would not be "general obligations" within the purview of section 5136 of the U. S. Revised Statutes and consequently were not eligible for underwriting by member banks of the Federal Reserve System.

9/4/63

-6-

In commenting, Mr. Hexter noted that this was one of the problems arising out of the desire of the Comptroller of the Currency to expand the underwriting powers of national banks by (1) holding that particular bond issues were eligible for underwriting by national banks in cases where for some 30 years similar issues had been regarded as ineligible; (2) proposing to amend the Comptroller's Investment Securities Regulation; and (3) supporting a pending bill to amend section 5136 of the Revised Statutes to permit limited underwriting. The action of the Comptroller in declaring certain bond issues eligible for underwriting represented, in fact, an attempt to go further than the proposed amendment to the statute. In this particular instance, the Comptroller had held specifically that the issues of State of Washington securities were general obligations of that State. However, analysis of the terms of the bond issues satisfied the Board's staff that the bonds clearly were not general obligations under a proper interpretation of the statute. The proposed letter, which the Legal Division felt should be published in the Federal Reserve Bulletin and the Federal Register, therefore would take the position that member banks did not have authority under section 5136 to underwrite the securities.

In reply to a question as to why the Comptroller's interpretation went further than the proposed revision of the law, Mr. Hexter explained that under the amendment to section 5136 national banks could underwrite revenue bonds only within a 10 per cent limit of capital and surplus and only if the bonds were eligible for investment. Under the Comptroller's interpretation, however, the bonds were like U. S. Government direct

9/4/63

-7-

obligations. They might be purchased for investment, underwritten, or dealt in without regard to quality or any limitation as to amount.

Governor Mills stated that he agreed completely with Mr. Hexter's analysis and the position taken in the proposed letter.

Governor Robertson also said that he agreed completely. He recounted a telephone call received last week from a representative of Morgan Guaranty who sought to be informed when a reply to the bank's inquiry might be expected. Governor Robertson had told the inquirer that he could not be sure when a reply would be forthcoming, but that in his personal opinion there could be little doubt as to the nature of the answer. The Morgan Guaranty representative said that some national banks were hesitant about attempting to underwrite the State of Washington bonds even with the benefit of the Comptroller's interpretation, while some State member banks were contemplating bidding for the issue, notwithstanding a possible adverse ruling from the Board, on the basis of the Comptroller's interpretation. Governor Robertson suggested that the Board, after it had reached a decision on the proposed letter, should advise Morgan Guaranty by telephone.

Governor Shepardson indicated that he agreed with all that had been said. He raised the question whether there were any steps that could be taken to resolve conflicting agency interpretations of this kind, and whether it seemed likely that the Comptroller's interpretation would be challenged in some way.

9/4/63

-8-

Mr. Hexter noted that possibly certain interested parties, such as investment bankers, might challenge the Comptroller's interpretation. Or possibly there might be some questioning of the Comptroller's interpretation by a committee of the Congress.

Governor Mills inquired whether, as a practical matter, member banks of the Federal Reserve System, if made aware of the Board's opinion, would not be likely to refrain from engaging in this kind of operation. If there was a loss, a shareholder of the underwriting bank might challenge the loss as diminishing his equity, and the management of the bank would have condoned what might be regarded as an ultra vires transaction.

Mr. Hexter replied that if he were counsel for a national bank in this kind of situation, he would probably advise the bank that it could proceed without too much concern about the likelihood of personal liability for any loss. The possibility of loss was relatively small in an operation of this kind. Further, there had been a formal ruling by the Comptroller of the Currency, who has authority to interpret the laws applicable to national banks, authorizing underwriting by national banks of these particular bonds. In the case of a State member bank the situation was different, however. If its principal supervisory agency (the Board of Governors) had issued no interpretation that State member banks could proceed with the underwriting of a particular issue, the legal hazards for a bank in undertaking such an operation would be substantially greater.

9/4/63

-9-

Governor Robertson expressed the view, as to national banks, that they might be influenced considerably by a well-reasoned interpretation of a responsible agency of the Government construing the statute.

Governor Mills observed that the proposed amendment to section 5136 that would authorize member banks to underwrite and deal in revenue bonds to a limited extent would come up for discussion at hearings of the House Banking and Currency Committee later this month. He assumed that the Board probably would have determined its position on the bill while he was on vacation during the next two weeks. Therefore, he would like to record at this time his view that the letter of the Federal Reserve Bank of New York dated August 26, 1963, expressing reasons that argued against a liberalization of the law was well founded. The statements in the letter were objective in character, and the historical background cited therein was persuasive. The conclusions in the letter lent support to the position of the investment bankers who had appeared before the Board and submitted a pamphlet on the subject. While the position of the investment bankers was substantially colored by self-interest, he felt that the fundamentals were correct. Accordingly, he would like to be recorded as opposing enactment of the bill to amend section 5136.

There followed additional discussion of possible procedures for resolving conflicting agency interpretations, during which question was raised regarding the possibility of requesting an opinion from the Attorney General of the United States. However, it was brought out that

9/4/63

-10-

a request for such an opinion on the Comptroller's interpretation would have to be made by an agency in the Executive Branch of the Government. It was also suggested that the forthcoming Congressional hearings on the proposed amendment to section 5136 might serve to clarify the thinking of the various interested parties, although one could not be sure that the hearings would carry forward to Congressional debate and final action.

In reply to a question, Mr. Hexter expressed doubt that failure of the proposed amendment to be enacted would have any effect in resolving the validity of the Comptroller's interpretation of the law. Even the passage of the amendment would not settle the question because the Comptroller had taken the position that the bonds in question were fully-exempt securities. The proposed amendment would make them exempt only up to 10 per cent of the capital and surplus of a national bank, both for the purpose of underwriting and for investment. Even if the amendment were enacted, under the Comptroller's ruling a bank could purchase the bonds without limitation in the same manner as direct obligations of the U. S. Government, and regardless of quality.

Question was raised whether the Board's letter of July 19, 1963, to the Comptroller with regard to the proposed amendment of the latter's Investment Securities Regulation had not appeared in public print, to which Mr. Molony replied that it had not been released by the Board. Apparently the Comptroller's Office had made it available to one member of the press. He suggested that if the proposed letter now under consideration by the Board were approved, the Board might want to issue a press release on it.

9/4/63

-11-

Mr. Hexter referred to the question of timing, today being the date for bidding on the Washington bond issues. If the letter were released after the time for bidding had passed, that might seem a little late, even though the opinion stated therein applied also to the question of unlimited purchasing of such bonds by State member banks. On the other hand, the interpretation could be published in the Federal Register and the Federal Reserve Bulletin, in the usual manner of publication of the Board's interpretations of the statutes, without focusing particular attention on the Washington bond issues. Mr. Hackley pointed out that it was the usual practice to publish automatically in the Federal Register any Board interpretations published in the Bulletin. If this interpretation were sent to the Register in the usual routine manner, it would be published in a matter of about four days. It would then appear in the next monthly issue of the Bulletin. He also suggested that copies of the letter be sent today to all Federal Reserve Banks so that they would be aware of the Board's position.

General agreement was expressed with the suggested procedure, and it was understood that the reply to Morgan Guaranty would be transmitted to that bank through the Federal Reserve Bank of New York in accordance with the usual procedure. The essence of the Board's opinion would be related to the New York Reserve Bank immediately by telephone, for transmittal to Morgan Guaranty, with the letter following.

Mr. Hexter pointed out that the proposed letter, as drafted, would state that the bonds in question would not be eligible for underwriting

9/4/63

-12-

by member banks of the Federal Reserve System. He noted that the Board might prefer to confine the statement to State member banks. Mr. Hackley supported such a change, pointing out that there was a technical difference between this matter, which related to an interpretation of provisions of the National Bank Act made applicable to State member banks by the Federal Reserve Act, and other situations where the statutory provision was actually contained in the Federal Reserve Act. In the latter case, it was clearly the Board's position that an interpretation should relate to all member banks, but here the responsibility for interpretation related only to State member banks. There was general agreement with the proposed change on the basis stated by Mr. Hackley.

Thereupon, unanimous approval was given to the letter to Morgan Guaranty Trust Company of which a copy is attached as Item No. 8, with the understanding that the procedures agreed upon during the foregoing discussion with regard to transmittal of the contents of the letter to Morgan Guaranty, distribution of the letter to the Federal Reserve Banks, and publication of the interpretation would be followed.

Messrs. Hexter, Shay, Conkling, and Goodman then withdrew from the meeting, as did Miss Hart, and Mr. Kiley, Assistant Director, Division of Bank Operations, entered the room.

Request for oral argument. There had been distributed to the Board a memorandum from Mr. O'Connell dated August 30, 1963, relating to the application of Denver U. S. Bancorporation, Inc., Denver, Colorado,

9/4/63

-13-

for approval of the formation of a bank holding company through acquisition of more than 50 per cent of the shares of three Colorado banks. Certain protesting banks (10 Colorado banks admitted as parties in the public hearing held April 23-26, 1963, in Denver, Colorado) had requested that they be allowed to present oral argument before the Board. For reasons stated in the memorandum, it was recommended that the request be denied.

In commenting on the matter, Mr. O'Connell noted that certain banks protesting the application of First Colorado Bankshares, Inc., Englewood, Colorado, to acquire shares of a proposed new bank in Denver had also filed a request for oral argument. The brief underlying that request, which would be before the Board shortly, raised the point that the Court of Appeals of the District of Columbia had now held that the scheme of organization involved in the proposed formation of a bank holding company in Louisiana involved a violation of the prohibition against branch banking contained in the Louisiana statutes. Counsel for the banks opposing the First Colorado Bankshares application urged that the branch banking statutes of Colorado likewise would be violated if the application were approved. Mr. O'Connell felt, however, that the Court decision could rightly be held inapplicable to the cases now before the Board; there were dissimilarities in many respects.

Governor Mills indicated that he would agree with the recommendation for denial of the current request for oral argument, but Governor

9/4/63

-14-

Robertson raised certain questions. If this were a request for oral argument by the proponents, he felt that the Board, according to its record, would be likely to grant the request. The concept as to the lack of necessity for oral argument was legally sound, but the question went to the public relations aspect of a decision not to grant the request. In view of the Board's record in freely granting requests for oral argument when made by proponents, he would lean on the side of approving the request in this case.

Governor Mills pointed out that in this case there had been a public hearing before a Hearing Examiner, with Counsel for the Board represented, and that a complete record of the case apparently had been assembled.

Governor Robertson agreed. Nevertheless, if the Hearing Examiner had recommended against approval of the application and the proponents had asked for oral argument, he was inclined to feel that the Board probably would have granted the request.

After further discussion, Governor Shepardson commented that he questioned how much the Board would get out of an oral presentation. If the Board had had a consistent pattern against granting such requests, it would be easy to follow the recommendation of the staff. In the circumstances, however, there was a public relations aspect that perhaps should be considered.

Governor Mills suggested that the granting of the request would work in the direction of contributing to a precedent whereby there would

9/4/63

-15-

always be oral argument, if requested, subsequent to the submission of Hearing Examiners' reports and recommendations. Perhaps the Board should be firm and say that no oral argument was necessary if the record of the case appeared to be complete. Governor Mills added that he must admit to a personal bias against oral arguments; he considered that they usually involved an unnecessary waste of time.

Governor Balderston then inquired of Mr. O'Connell whether there was any substantial reason why the two requests for oral argument (in this case and the First Colorado Bankshares case) could not be taken up together and decided by the Board next week. Mr. O'Connell replied that this would be satisfactory. His only reservation was that to the extent possible the Board's record should reflect separate consideration of the two cases.

Governor Mills stated that he had no strong feeling. If it was thought that members of the Board who were not present today should be afforded an opportunity to express themselves, the matter could properly be held over until next week. His fear was that oral arguments would get to be purely perfunctory. He felt that they usually did not add anything significant to the record, and that they represented principally a courtesy. As more and more were granted, the Board would get further and further enmeshed in precedent. To take evidence beyond the record compiled by a Hearing Examiner constituted in a sense granting an appeal, whereas any appeal should properly be made to the courts.

9/4/63

-16-

Governor Balderston noted that the second request for oral argument would be coming up next week at a time when additional members of the Board would be present. The two requests could hardly be disassociated. If oral argument was granted in the one case, it presumably should also be granted in the other.

At the conclusion of the discussion, it was understood that the two requests for oral argument would be considered by the Board next week.

Messrs. Thompson and Lyon then withdrew from the meeting.

Proposed consent decree. In February 1963, the Department of Justice had filed in the U. S. District Court a complaint against a number of banks in Minnesota alleging that the banks had acted in violation of the Sherman Act by conspiring to fix rates of interest on loans, to fix amounts of rebates, to refrain from absorbing losses incurred by correspondent banks in the sale of Government securities, to refrain from absorbing exchange charges, and to refrain from furnishing supplies to correspondent banks free of charge. The Department of Justice and the defendant banks had now opened negotiations to dispose of this civil action by a consent decree.

A draft of the consent decree had been distributed to the Board with a memorandum from the Division of Examinations dated September 3, 1963. In a letter to Mr. Leavitt dated August 30, 1963, a representative of the Justice Department had indicated that the Department would appreciate an opportunity to discuss with the Board's staff whether or not

9/4/63

-17-

the proposed consent decree would raise any problems from the viewpoint of the Board or any operational problems from the viewpoint of the banks involved.

In discussion of the proposed consent decree, the appropriateness of some of the provisions was questioned. However, it was recognized that the matter was properly the subject of action by the Justice Department and that if members of the Board's staff met with representatives of the Department their role should be one of giving technical advice. It was understood that the Department wanted principally to be sure that there were no provisions of the consent decree that would impair normal banking operations.

At the conclusion of the discussion, it was agreed to interpose no objection to complying with the request of the Justice Department for a meeting with the Board's staff, subject to the understanding that the participating members of the Board's staff would not deal with the merits of the matter, on one side or the other, and would merely express views as to whether particular provisions of the consent decree might be contrary to statute or regulation, or might hamper normal banking operations.

Governor Robertson withdrew from the meeting at this point, along with Messrs. Young and Molony. Mr. Cardon, Legislative Counsel, who had entered the room during the discussion of the preceding topic, also withdrew at this point.

Documents regarding examination procedures. Mr. Sherman reported that representatives of the House Banking and Currency Committee who

9/4/63

-18-

were engaged in reviewing work papers relating to examinations of Federal Reserve Banks by the Board's examining staff had also reviewed reports of Price Waterhouse & Co. resulting from that firm's studies of techniques and procedures used by the examining staff. The Committee staff had likewise reviewed the related memoranda from the Division of Examinations to the Board of Governors covering the Division's views on the suggestions and recommendations contained in the Price Waterhouse reports, along with a Price Waterhouse letter of February 13, 1963, to Governor Shepardson relating to the firm's 1962 assignment. The Committee staff noted that Price Waterhouse indicated in that letter that it had reviewed a memorandum dated December 4, 1962, addressed to the Board of Governors by Governor Robertson, along with five memoranda prepared by the Board's staff in response to the Board's solicitation of views concerning Governor Robertson's memorandum, which suggested changes in examining procedures, and that the Price Waterhouse comments concerning such papers were included in a letter of February 13, 1963, addressed to the Board of Governors. The Committee staff noted that it had not seen the memorandum from Governor Robertson, the Board staff memoranda relating thereto, or the Price Waterhouse letter to the Board of February 13, 1963.

Mr. Sherman asked for confirmation of his judgment that the Board's previous authorizations, including the authorization given on August 8, 1963, made it clear that the Board would have no objection to making such documents available to the Committee staff. It was his judgment that it would also be appropriate to show the Committee staff the letters received

9/4/63

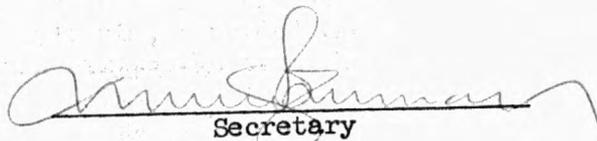
-19-

from two other public accounting firms regarding Governor Robertson's proposal, along with Governor Shepardson's memorandum of April 25, 1963, summarizing the Board's discussions and conclusions with respect to such proposal.

Governor Mills expressed the view that it would be in accord with the Board's authorization to make the documents in question available to the Committee staff, and the other members of the Board concurred in this view.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum from the Division of International Finance, Governor Shepardson today approved on behalf of the Board the appointment of Carl Herbert Stem as Economist, Division of International Finance, with basic annual salary at the rate of \$8,840, effective the date of entrance upon duty.


Secretary

3037

Item No. 1
9/4/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 4, 1963



Board of Directors,
Girard Trust Corn Exchange Bank,
Philadelphia, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Girard Trust Corn Exchange Bank, Philadelphia, Pennsylvania, at 8616-18 Germantown Avenue, Philadelphia, Pennsylvania, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 2
9/4/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 4, 1963



Board of Directors,
Bank of Carthage,
Carthage, Missouri.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Bank of Carthage, Carthage, Missouri, of a branch at 200 West Third Street, Carthage, Missouri, provided the branch is established within nine months from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 3
9/4/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 4, 1963

Board of Directors,
United California Bank,
Los Angeles, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by United California Bank, Los Angeles, California, of a branch in the vicinity of the intersection of Pacific Coast Highway and Crown Valley Parkway, unincorporated community of Laguna Niguel, Orange County, California, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

3040

Item No. 4
9/4/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



September 4, 1963

Board of Directors,
United California Bank,
Los Angeles, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch in the vicinity of Niguel Road (El Toro Road) and Santa Ana-San Diego Freeway, in the Laguna Hills Retirement Community, an unincorporated area in Orange County, California, provided the branch is established within six months from the date of this letter. It is understood this branch will be opened in temporary quarters near the tract office of the developer and later moved to permanent quarters when they are available. At such time as the branch is established at the permanent location, operations at the temporary location should be discontinued.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

3041

Item No. 5

9/4/63

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 4, 1963

Mr. Robert G. Mayer,
Vice President,
Bank of America,
41 Broad Street,
New York 15, New York.

Dear Mr. Mayer:

This will acknowledge your letter of August 16, 1963, transmitted through the Federal Reserve Bank of New York, referring to the Board's letter of October 9, 1962, granting consent to the establishment by Banca d'America e d'Italia, Milan, Italy, of various branches and agencies, including proposed agencies in (1) Rome - Due Pini District, and (2) Turin - Barriera Milano, provided such agencies were opened on or before November 1, 1963.

You state that Banca d'Italia has extended to February 10, 1964 the time within which the Rome - Due Pini District Agency may be opened. In accordance with your request, the Board of Governors also extends to February 10, 1964 the time within which the Rome - Due Pini District Agency may be opened.

It is noted that the proposed Turin - Barriera Milano Agency has not been established, but that a request has been made to Banca d'Italia for an extension to February 28, 1964. It is understood that when a decision has been reached with regard to the Turin Agency you will write the Board further concerning it.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 6
9/4/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 4, 1963.

Mr. Ward J. Larson, Assistant Counsel
and Assistant Secretary,
Federal Reserve Bank of Chicago,
Chicago, Illinois. 60690

Dear Mr. Larson:

This refers to your letter of July 30, 1963, enclosing a request from the law firm of Mayer, Friedlich, Spiess, Tierney, Brown & Platt for an interpretation by the Board of Governors on the question whether interlocking service of certain individuals as members of the advisory board of an open-end investment fund, PLICO Fund, Inc. ("Fund") and directors of banks which are members of the Federal Reserve System ("member banks") is prohibited by section 32 of the Banking Act of 1933 ("section 32") and the Board's Regulation R. Additional questions are presented by facts set forth in supporting material submitted to the Board in connection with the request, as to whether similar interlocking service is prohibited between the incorporated investment advisor to Fund, PLICO Advisors, Inc. ("Advisors") and member banks, and between Provident Life Insurance Company ("Provident") and member banks.

The same persons will serve as principal officers and directors of Provident, of Fund, and of Advisors, as well as of PLICO Company ("Company"), a corporation to be formed which will act as underwriter for Fund. In addition, several directors of member banks serve as directors of Provident and will serve as directors of Advisors and members of the Advisory Board of Fund, and additional directors of member banks have been named as members of the Advisory Board alone. All outstanding shares of Advisors and of Company are apparently owned by Provident.

Advisors will have the principal management and investment responsibility for Fund, subject to approval of Fund's board of directors. Advisors will also supply office space for the conduct of Fund's affairs, and will compensate members of the Advisory Board who are also officers or directors of Advisors.

Mr. Ward J. Larson

-2-

Under the provisions of section 11 of Fund's bylaws, members of the Advisory Board will be appointed by the board of directors of Fund, which may remove any member at any time. The Advisory Board will "advise the Board of Directors as to the investment of the assets of the Corporation (Fund)" and "shall have no power or authority to make any contract or incur any liability whatever or to take any action binding upon the Corporation, the Officers, the Board of Directors or the stockholders."

Section 32 provides that, except in limited classes of cases, as the Board of Governors may allow by general regulations,

"No officer, director, or employee of any corporation . . . primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at whole-sale or retail, or through syndicate participation, of stocks, bonds, or other similar securities, shall serve at the same time as an officer, director, or employee of any member bank. . . ."

The Board has held that an open-end investment company is primarily engaged in the activities described in section 32, "even though the shares are sold to the public through independent organizations with the result that the investment company does not derive any direct profit from the sales." (1951 Federal Reserve Bulletin 645) As a result, Fund must be regarded as so engaged, even though its shares are to be underwritten and distributed by Company.

The directors of member banks involved in the inquiry before the Board are not officers, directors, or employees of either Fund or Company. The relevant question, then, is whether (1) the Advisory Board, and (2) the Advisors should be regarded, under the facts before the Board, as being functionally and structurally so closely allied with Fund that they should be treated as one with it in determining the applicability of section 32. An additional, and more difficult question arises as to whether Provident itself will be so closely linked with the entire open-end investment fund operation that it should be regarded as "primarily engaged" in section 32 activities, with the result that directors of Provident would be prohibited from serving as directors of member banks.

The function of the Advisory Board is merely to make suggestions and counsel with the Fund's board of directors in regard to investment policy. It has no authority to make binding recommendations in any area, it is not self-perpetuating, and it does not serve in any sense as a check on the authority of the board of directors. None of the

Mr. Ward J. Larson

-3-

principal officers of Fund or of Company are members of the Advisory Board. Compensation of its members is expected to be nominal.

The Board of Governors has concluded that the Advisory Board and Fund need not be regarded as one for purposes of section 32. Members of the Advisory Board are not to be regarded as "officers, directors or employees" of Fund, or of Company, and section 32 does not, therefore, prohibit members of the Advisory Board from serving as officers, directors, or employees of member banks.

The situation as to Advisors is somewhat different. The principal officers and several directors of Advisors are identical with both those of Fund and of Company. Entire management and investment responsibility for Fund has been turned over, by contract, to Advisors, subject only to a review authority in the board of directors of Fund. It appears that Advisors was created for the sole purpose of servicing Fund, and its activities will be limited to that function.

In the view of the Board, the structural and functional identity between the two is such that they must be regarded as a single entity for purposes of section 32, and, accordingly, officers, directors, and employees of Advisors are prohibited by section 32 from serving as officers, directors, or employees of member banks.

The question as to interlocking directorates between Provident and member banks cannot be decided without additional information as to the manner in which the actual operation of Fund will continue to be related to Provident. In this connection, it would be appreciated if information could be submitted on the following points: (1) Will the directors of Provident continue as directors of Fund, Advisors, and Company; (2) how will retail sales of shares in Fund be effected, i.e., through salesmen for policies of Provident, and if so, to what extent; (3) will sales of shares of Fund be linked to sales of policies of Provident and if so, to what extent and in what manner; (4) will payment for shares of Fund be linked to payment for policies of Provident, and if so, to what extent and in what manner; (5) any other information which may seem relevant.

The views and conclusions of the Board in this matter, of course, are based on its understanding of the information that has been submitted. Accordingly, if the arrangements in question as actually carried out or otherwise should involve any material deviation from the situation as outlined herein, it might be necessary for the matter to be reconsidered.

Mr. Ward J. Larson

-4-

It would be appreciated if you would advise the firm which submitted the inquiry on behalf of the Fund of the contents of this letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

3046
Item No. 7
9/4/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 4, 1963.

Mr. Herbert V. Prochnow, Secretary,
Federal Advisory Council,
c/o The First National Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Prochnow:

The Board suggests the following topics for inclusion on the agenda for the meeting of the Federal Advisory Council to be held on September 16, 1963, and for discussion at the joint meeting of the Council and the Board on September 17:

1. What are the views of the members of the Council as to the probable course of economic activity in the United States during the remainder of 1963 and the early part of 1964? In discussing this general question, the Council may wish to comment on the following items:
 - a. Do recent levels of residential building activity appear to be firmly based, and is further expansion anticipated?
 - b. Does the liquidation of steel inventories acquired earlier this year appear to have about run its course, or is further liquidation in prospect?
 - c. Has any important change been observed recently in prospects for plant and equipment expenditures?
 - d. Does the Council continue of the opinion, expressed at its previous meeting with the Board, that competitive pressures resulting from unused domestic capacity, as well as from manufacturers abroad, will tend to be sufficient to discourage broad price rises in the relatively near future?
2. Does the Council detect any substantial slackening in bank efforts to attract time and savings deposits? Any change in the pattern of bank investment of these savings inflows?

Mr. Herbert V. Prochnow

-2-

3. As a result of high levels of activity and of changes in business tax laws, the flow of internally generated business funds has increased substantially this year, while dependence on bank and market financing appears to have declined. Do the members of the Council expect business needs for bank financing to continue moderate over the balance of the year or are there signs of significant increase in business loans? Does the Council feel that banks, by and large, are sufficiently liquid to meet a moderate upsurge in credit demands without substantial portfolio rearrangement?

4. What are the Council's observations regarding current attitudes in the business and financial community toward U. S. balance of payments developments? How does the Council appraise the general reception of the recent actions and proposals designed to deal with this problem?

5. How does the Council evaluate the impact of current monetary and credit policy?

As indicated previously, the Board would be glad to have any views the Council might care to express on the legislation that has been recommended to broaden the kinds of security on which credit can be advanced by the Federal Reserve Banks.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 8
9/4/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 4, 1963.



Mr. Dale E. Sharp,
Vice Chairman of the Board,
Morgan Guaranty Trust Company,
140 Broadway,
New York 15, New York.

Dear Mr. Sharp:

This is in reply to your letter of August 23, 1963, transmitted to the Board of Governors through the Federal Reserve Bank of New York, with respect to the authority of member State banks to underwrite securities issued by States and political subdivisions thereof. You refer particularly to \$35,750,000 of Public Building Bonds, 1961, Series D, and Public School Plant Facilities Bonds, 1961, Series C, of the State of Washington. Bids for these bonds will be received by the Finance Committee of the State of Washington until 11:00 a.m. (Pacific Daylight Time) on September 4, 1963. You point out that the Comptroller of the Currency has held that said bonds are eligible for underwriting by national banks.

As you know, paragraph Seventh of section 5136 of the Revised Statutes (12 U.S.C. 24) provides that a national bank "shall not underwrite any issue of securities", but further provides that this restriction "shall not apply to...general obligations of any State or of any political subdivision thereof". The twentieth paragraph of section 9 of the Federal Reserve Act (12 U.S.C. 335) subjects State member banks to the same limitations with respect to the underwriting of investment securities "as are applicable in the case of national banks under paragraph 'Seventh' of section 5136."

Under the statutory provisions quoted above, member banks are prohibited from underwriting securities issued by a State unless those securities are "general obligations". In the opinion of the Board of Governors, securities are not "general obligations" unless they are backed by the full faith and credit of the issuer. As stated in Paragraph 520 of the Digest of Opinions of the Office of the Comptroller of the Currency, "Securities payable only out of particular funds or out of the obligor's revenues from a particular source are not general obligations." In order to be eligible for underwriting by member banks, the issuer must possess the power of general property taxation and the securities must be supported by that power, as a part of the "full faith and credit" of the issuer.

Mr. Dale E. Sharp

-2-

It is understood that the bonds in question are to be issued pursuant to Washington Laws of 1961, Ex. Sess., Chapters 3 and 23. These statutes provide that the bonds "shall not be a general obligation of the state of Washington but shall be payable...from the proceeds of retail sales taxes...." The statutes also provide that

"the state undertakes to continue to levy the taxes referred to herein and to fix and maintain said taxes in such amounts as will provide sufficient funds to pay said bonds and interest thereon until all such obligations have been paid in full."

The statutory provisions that the bonds in question "shall not be a general obligation of the state of Washington" and "shall be payable ...from the proceeds of retail sales taxes" appear to indicate that the bonds will not be supported by the full faith and credit of the State, including its power of general property taxation. If this is correct, it follows, on the principles previously stated, that these bonds would not be "general obligations" of the State within the meaning of R. S. 5136 and would not be eligible to be underwritten by member banks. The undertaking to levy retail sales taxes that will provide sufficient funds to pay the bonds in full reflects the intent of the State that the bonds (and interest thereon) shall be paid, but it does not negate the plain statement in the Washington statute that the bonds shall be payable from a particular source--namely, the proceeds of retail sales taxes--and are not general obligations.

This conclusion does not conflict with the decision of the Supreme Court of Washington in State of Washington v. Martin, decided August 7, 1963. It was there held that bonds of this nature are "issued upon the credit of the state and are in truth debts of the state." However, the Court made it quite clear that such bonds are not supported by the full faith and credit of the State and its plenary taxing power. Under the State constitutional and statutory provisions dealt with in that decision, bonds of the State of Washington that are payable from a particular source of revenue constitute a debt of that State but are not general obligations thereof.

For these reasons, the Board concludes that the bonds in question will not be "general obligations" within the purview of section 5136 of the Revised Statutes and consequently are not eligible for underwriting by State banks that are members of the Federal Reserve System.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.