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Minutes for September 9, 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

W

Gov. Mills

[Signature]

Gov. Robertson

R

Gov. Balderston

CCB

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Gov. Mitchell

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on Monday, September 9, 1963. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman  
 Mr. Balderston, Vice Chairman  
 Mr. Robertson  
 Mr. Shepardson  
 Mr. King 1/  
 Mr. Mitchell

Mr. Sherman, Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Young, Adviser to the Board and Director,  
 Division of International Finance  
 Mr. Fauver, Assistant to the Board  
 Mr. Mattras, General Assistant, Office of  
 the Secretary

Messrs. Koch, Brill, Garfield, Holland,  
 Broida, Eckert, Fisher, Gehman,  
 Manookian, Partee, Peret, Weiner, Wernick,  
 and Yager of the Division of Research  
 and Statistics

Messrs. Furth, Hersey, Sammons, Gekker, Gemmill,  
 Irvine, Klein, Maroni, and Swerling of the  
 Division of International Finance

Economic review. The Division of International Finance commented on international financial conditions, with special reference to the U. S. balance of payments, after which the Division of Research and Statistics presented information relating to the domestic economy.

Governor King and all members of the staff except Messrs. Sherman, Kenyon, Fauver, Koch, Holland, Mattras, and Eckert then withdrew and the following entered the room:

1/ Withdrew from meeting at point indicated in minutes.

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Mr. Hackley, General Counsel  
 Mr. Solomon, Director, Division of Examinations  
 Mr. Schwartz, Director, Division of Data Processing  
 Mr. Conkling, Assistant Director, Division of Bank Operations  
 Mr. Goodman, Assistant Director, Division of Examinations  
 Mr. Leavitt, Assistant Director, Division of Examinations  
 Miss Hart, Senior Attorney, Legal Division  
 Mr. Doyle, Attorney, Legal Division  
 Mr. Veenstra, Chief, Call Report Section, Division of  
 Bank Operations  
 Mr. McClelland, Assistant to the Director, Division of  
 Examinations

Ratification of actions. Actions taken by the available members of the Board at the meetings held on September 5 and 6, 1963, as recorded in the minutes of those meetings, were ratified by unanimous vote.

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on September 6, 1963, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

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

Item No.

Letter to Marine Midland International Corporation,  
 New York, New York, noting that a proposed invest-  
 ment in stock of the Industrial Finance Corporation,  
 Manila, The Philippines, would appear to qualify  
 under the "general consent" provisions of Regulation K.

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Item No.

Letter to the Federal Reserve Bank of Kansas City concurring in the view that LaSalle and Greeley, Colorado, are neither contiguous nor adjacent within the meaning of section 8 of the Clayton Act and Regulation L.

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Letters to the Federal Reserve Bank of St. Louis and Mercantile Trust Company, St. Louis, Missouri, regarding the development of additional information pertaining to acquisition of the assets of Mercantile Mortgage Company and the stock of certain other corporations by a wholly-owned subsidiary of Mercantile Trust Company.

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Mr. Doyle withdrew from the meeting during the discussion of the foregoing items and the following members of the staff entered the room:

Mr. Hexter, Assistant General Counsel  
 Mr. Hooff, Assistant General Counsel  
 Mr. Langham, Assistant Director, Division of Data Processing

Comptroller's manuals. There had been distributed a memorandum from the Division of Examinations dated September 4, 1963, with regard to the means of acquiring certain manuals issued by the Comptroller of the Currency. The manuals, titled Comptroller's Manual for National Banks and Comptroller's Manual for Representatives in Trusts, were priced by the Comptroller at \$50 per copy for most parties other than national banks. This was understood to include the Board and the Federal Reserve Banks.

It was the opinion of the Legal Division that any publication of the Comptroller's Office was a publication of the United States

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Government and therefore could not be copyrighted. The Legal Division also advised that there was no provision of law that would prohibit the Board from duplicating the Comptroller's manuals.

According to the Division of Examinations, the manuals required for System use could be reproduced at the Board by the multilith process at a substantial saving from the purchase price set by the Comptroller. The Reserve Banks had been canvassed as to the number of copies of each manual they would require, and the Banks advised that they would use 28 copies of the Comptroller's Manual for National Banks if purchased for cash and 58 copies if duplicated at the Board. They also advised that they would use 24 copies of the Comptroller's Manual for Representatives in Trusts if purchased for cash and 41 copies if reproduced by the Board.

It was noted that if all copies of the two manuals required by the System on a cash basis were purchased, the cost would be \$2,800. The Division of Examinations estimated that the reproduction of the same number of copies at the Board would result in a net saving of about \$2,050, and it therefore recommended this course of action.

Governor Shepardson expressed the view that in light of the price established by the Comptroller's Office, which seemed unreasonable, there would appear to be no reason why the manuals should not be reproduced at the Board. He also noted that at least one of the manuals had been issued several months ago and that the System had learned of its existence indirectly.

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In reply to questions, Mr. Solomon stated that it would be rather difficult for the System to operate effectively in certain matters without access to at least a minimum number of copies of the Comptroller's interpretations and rulings. He added that the Division of Examinations had obtained a copy of the Comptroller's Manual for National Banks on loan from the Federal Reserve Bank of Philadelphia, which was one of two Banks that had already purchased the manual.

Mr. Hackley noted that the System already had access to the statutes and regulations included in the Comptroller's Manual for National Banks and was interested only in the interpretations and rulings, which comprised but a small part of the entire manual. It was Mr. Hackley's understanding that the Federal Deposit Insurance Corporation was aware that the manual had been issued but thus far had not obtained copies.

Governor Robertson raised a question as to whether the relatively small saving involved was worth the additional interagency friction that might result. He also noted that difficulty might arise should the Comptroller refuse to provide the System with revisions or amendments. If these matters had been considered fully by the staff, he would not object strongly to the staff recommendation.

Governor Mitchell expressed the view that the procedure recommended by the Division of Examinations was appropriate, following which

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Governor Shepardson commented that he did not regard the saving involved as the main issue. He felt that the recommended action was justified as a matter of principle.

The Board then approved unanimously the action recommended by the Division of Examinations to reproduce the manuals at the Board for System use.

Mr. McClelland then withdrew from the meeting.

Federal funds transactions (Item No. 5). At the meeting on August 27, 1963, the Board had considered a Legal Division recommendation that a letter be sent to all Federal Reserve Banks regarding transactions in Federal funds. The draft letter was proposed in order to avoid any misunderstanding that might arise from a recent ruling of the Comptroller of the Currency that Federal funds transactions were to be considered purchases and sales of such funds. The Comptroller's ruling reversed the previous position of that Office and was contrary to the position of the Board, which had regarded such transactions as involving loans and borrowings. While the Comptroller's ruling interpreted the National Bank Act, it was possible it might overlap to other provisions of law, including provisions of the Federal Reserve Act. The draft letter prepared by the Legal Division proposed to reiterate the Board's position in this respect, particularly as to the interpretation of section 6 of the Bank Holding Company Act and section 23A of the Federal Reserve Act. At the meeting on August 27, the Board agreed to consider the matter further at a later meeting.

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Mr. Hackley noted that since this matter had last been considered, a difficult situation had arisen with regard to bank underwriting of revenue bonds. Chase Manhattan Bank, a State member bank of New York City, and other State member banks were among a group that had successfully bid on certain State of Washington bonds, on the same day the Board reiterated its position that the bonds were not backed by the full faith and credit of the State and were therefore not eligible for underwriting by State member banks. Chase Manhattan had relied on a ruling of the Comptroller of the Currency that was inconsistent with the interpretation of the Board, and it was to avoid another situation of this sort that the Legal Division again recommended sending the proposed letter on Federal funds transactions to the Reserve Banks. It would also be published in the Federal Register and the Federal Reserve Bulletin.

Governor Robertson stated that although he had suggested further consideration of the matter on August 27, he now favored approval of the proposed letter.

There followed a discussion during which Governor Mitchell raised a series of questions to which replies were made by Messrs. Hackley and Hexter. In response to one question, Mr. Hackley verified that it had always been the position of the Board that Federal funds transactions involved loans and borrowings. He added that this was not a matter of regulation; likewise, the recent statement in the Comptroller's Manual was an interpretation, not a regulation. Mr. Hexter mentioned that in

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the 1950's some banks substituted sales of Government securities on repurchase agreements, and some controversy arose over this variation. As to the basic kind of Federal funds transaction, however, there had been uniform agreement until the Comptroller, without public announcement other than the publication of the Comptroller's Manual for National Banks, inserted therein a paragraph stating that Federal funds transactions were not loans, that they were sales of funds, and that they were not subject to any lending or borrowing limitations. Governor Mitchell then asked whether, from a policy standpoint and also from a statistical standpoint, there was good reason for regarding Federal funds transactions as loans rather than investments. Mr. Hexter replied that the Congress had said that no national bank might make loans to a single borrower in excess of 10 per cent of its capital and surplus, and in a Federal funds transaction the risk of loss could be just as great. Governor Mitchell noted that this was a matter on which the Comptroller could properly take action that was binding on national banks. Further, this was an action that national banks no doubt were pleased to have the Comptroller take. Governor Mitchell doubted whether the Congress actually had in mind Federal funds transactions when it placed the restriction in the law on loans to single borrowers. Further, he did not see the fundamental objection to treating Federal funds transactions as investments. He asked whether it was wise for the Board to make an issue of this point. Mr. Hackley replied that the Comptroller's interpretation did not affect State member banks; such

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banks were not subject to the lending or borrowing limitations of Federal law. What the Board had under consideration was a matter of interpreting certain provisions of law that the Board had to administer. The proposed letter would simply say that on two such points the Board did not acquiesce in the Comptroller's interpretation. Mr. Hexter pointed out that the Board had questioned the wisdom of the applicable provisions of section 6 of the Bank Holding Company Act but had said to the Congress that as long as the provisions of that section were included in the law, the Board must enforce them. After a brief discussion of the method of reporting Federal funds transactions on the Comptroller's recently revised condition report form for national banks, Governor Mitchell said that he could make his position clear, apart from the legal side. His position was that he would not be inclined to resist the interpretation accorded Federal funds transactions by the Comptroller. He asked what that would mean in terms of the Board's legal responsibilities. Mr. Hackley replied that he felt it was a question of sacrificing principle for expediency. It was a matter of reversing a legal position taken by the Board over a long period of years merely to conform to the Comptroller of the Currency's present position. Asked whether it had not been the Board's position to have a consistent treatment of this issue, Mr. Hackley said that the Board would have no basis for disagreeing with the Comptroller's interpretation in its application to national banks. The Board would be disagreeing in the sense that it did not apply the same principle to

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provisions of law that the Board was obliged to administer. The proposed letter should be considered completely apart from the manner in which Federal funds transactions were shown in condition reports.

There followed a brief discussion of the number of banks that would be affected by the proposed Board interpretation, after which Governor Mitchell said that he would do whatever the rest of the members of the Board wanted to do, although he thought it would be a mistake to publish the proposed interpretation.

Chairman Martin commented that it was a matter of principle that was primarily involved. In this instance, he felt that the Board ought to stand on principle.

Accordingly, Governor Mitchell's reservations having been noted, the proposed letter to the Federal Reserve Banks was approved, with the understanding that an interpretation based thereon would be published in the Federal Register and in the Federal Reserve Bulletin. A copy of the letter is attached as Item No. 5.

Call report form. There had been distributed a memorandum from the Division of Bank Operations dated September 5, 1963, submitting a draft letter to all Federal Reserve Banks with respect to reports of condition of State member banks to be used in the fall call. At the meeting on August 27, 1963, the Board considered the difficulties involved in tabulating the data for the fall call period in view of the changes in the national bank report of condition form adopted unilaterally

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by the Comptroller of the Currency. It was the Board's feeling at that time that in view of the time limitation it might be desirable for the State member bank fall call report to be limited only to information on the face of the report and such other information as the Federal Deposit Insurance Corporation might need in connection with deposit insurance assessment purposes. The proposed letter to the Reserve Banks was drawn along the lines suggested at the August 27 meeting and also took into account some additional changes made necessary by advice of further revisions that had been decided upon by the Comptroller subsequent to that meeting.

In commenting, Mr. Conkling said that everything in the memorandum and the proposed letter to the Reserve Banks was consistent with what he had reported to the Board at the meeting on August 27, 1963, and with the actions taken by the Board at that meeting, with the exception that after the meeting a letter had been received from an assistant to the Comptroller transmitting a few further changes in the Comptroller's condition report form. Mr. Conkling then reviewed the nature of the further changes. He went on to say that the Budget Bureau had been informed as to what the Board planned to do and that it did not object. Also, a copy of the Board's letter to the Budget Bureau had been sent to the Federal Deposit Insurance Corporation, and he understood the Corporation intended to ask that nonmember insured banks fill out only the face side of the report and items on the reverse side that were

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needed for deposit insurance assessment purposes. Mr. Conkling concluded his remarks by suggesting a minor change in the proposed letter to the Reserve Banks.

In reply to a question about plans for the call at the end of the current calendar year, Mr. Conkling recalled that he had been instructed at the August 27 meeting to prepare forms for the year-end call that might be sent by the Board to all member banks, including national banks. In addition to the condition report form, this would include the income and dividends form. He indicated that the Budget Bureau knew of this possibility, which he understood that the Board was prepared to consider if arrangements could not be worked for a uniform call report that was satisfactory to the Board.

Governor Mitchell expressed the view that the System should shift to a straight statistical basis, in whatever way was appropriate, to obtain benchmark data for all member banks at least once each year. After Mr. Conkling had commented on the indicated desire of a member of the Comptroller's staff to work toward a uniform end-of-year call report, Mr. Koch noted that some members of the Board's research staff felt it would be helpful if the fall call data could be tabulated in some manner, even if on a different basis than in the past. He wondered if there would not be some way of making necessary adjustments for tabulation purposes, to which he added that in the fall season credit developments might be quite strategic.

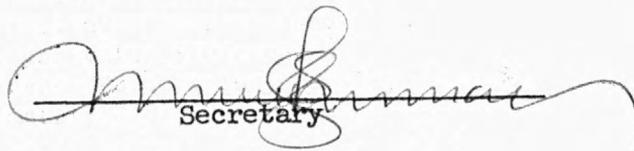
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In light of Mr. Koch's comments, it was agreed, at the suggestion of Chairman Martin, to hold the matter over for staff review and further consideration at another meeting of the Board.

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 acceptance of the resignation of Alan Sokolski, Economist in that Division, effective September 21, 1963.

  
Secretary

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

Item No. 1  
9/9/63



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 9, 1963

Marine Midland International Corporation,  
120 Broadway,  
New York 15, New York.

Gentlemen:

This refers to your letter of August 15, 1963, transmitted through the Federal Reserve Bank of New York, requesting consent for your Corporation to purchase and hold approximately 29,191 shares, par value \$10 each, of the common stock of Industrial Finance Corporation, Manila, Philippines, at a cost of approximately \$487,500 (or US \$125,000 equivalent.)

It would appear from the information submitted that the proposed investment would qualify under the General Consent provisions of Section 211.8(a) of Regulation K as revised effective September 1, 1963.

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. 2  
9/9/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 10, 1963.



Mr. William H. Leedy, General Counsel  
and Secretary,  
Federal Reserve Bank of Kansas City,  
Kansas City, Missouri. 64106

Dear Mr. Leedy:

This is in further reference to the Board's letter of June 6, 1963, to Mr. Clay asking for additional information to assist the Board in determining whether LaSalle, Colorado, and Greeley, Colorado, are "adjacent" or "contiguous" within the meaning of section 8 of the Clayton Act and footnote 8 to the Board's Regulation L.

On reviewing the attachments to your letter of September 3, 1963, addressed to Mr. Shay, the Board agrees with your conclusion that the towns in question are neither adjacent nor contiguous, as those terms are used in the statute and the Board's Regulation. Accordingly, directors and employees of the First National Bank of Greeley are not prohibited under the statute and the Regulation from serving as directors of the South Platte National Bank, located in LaSalle.

It will be appreciated if you will convey the views expressed herein to Mr. William E. Shade of the law firm Winters & Shade in Greeley, Colorado, who, as you will recall, presented the question.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 3  
9/9/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 9, 1963.

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

Dear Mr. Wyrick:

This is in reply to your letter of August 26, relating to the June 21, 1963 acquisition, by a wholly-owned subsidiary of Mercantile Trust Company, of the assets and business of the Mercantile Mortgage Company and the stock of certain other corporations.

In the judgment of the Board, it would be advisable to obtain information along the lines described in the August 23 memorandum of your Bank's Counsel, a copy of which you enclosed, and the Board requests that your Bank proceed to obtain such information.

Enclosed is a letter of today's date from the Board to Mercantile Trust Company which you are requested to transmit to that bank, either separately or with a letter of your Bank requesting the cooperation of Mercantile Trust Company. A copy is also enclosed for your records.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Enclosure.



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

Item No. 4  
9/9/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



September 9, 1963.

Mr. Kenton R. Cravens,  
Chairman of the Board,  
Mercantile Trust Company,  
St. Louis 66, Missouri.

Dear Mr. Cravens:

This is with reference to your letter of August 5, 1963, to the Board of Governors, your letter of August 9 to the Federal Reserve Bank of St. Louis, and prior correspondence relating to the application of the Federal banking laws to the acquisition of Mercantile Mortgage Company and stock of other corporations by a wholly-owned subsidiary of Mercantile Trust Company and the operations subsequent to said acquisition.

In order to clarify the present and prospective status of the matters referred to in the Board's letter of June 20, 1963, it appears that additional information is needed regarding (1) the financing of the above-mentioned acquisitions, (2) the corporate stocks acquired, and (3) the number, location, and present and prospective operations of offices of Mercantile Mortgage Company other than the office located at 721 Locust Street, St. Louis.

In accordance with the last paragraph of your letter of August 9 to Mr. Wyrick of the Federal Reserve Bank of St. Louis, that Bank will request your assistance in developing the information that appears to be necessary.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

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Item No. 5  
9/9/63

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ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 9, 1963.

Dear Sir:

Questions have been raised as to the effect of a ruling by the Comptroller of the Currency regarding the nature of Federal funds transactions which appears in the Comptroller's recently published "Manual for National Banks." This ruling, reversing the previous position of the Comptroller's Office, holds that Federal funds transactions by national banks do not constitute loans within the limitations of section 5200 of the Revised Statutes or borrowings within the limitations of section 5202 of the Revised Statutes. The text of the ruling is as follows:

"1130. Sale of Federal Reserve funds to another bank

"When a bank purchases Federal Reserve funds from another bank, the transaction ordinarily takes the form of a transfer from a seller's account in the Federal Reserve Bank to the buyer's account therein, payment to be made by the purchaser, usually with a specified fee. The transaction does not create on the part of the buyer an obligation subject to the lending limit or a borrowing subject to 12 U.S.C. 82, but is to be considered a purchase and sale of such funds."

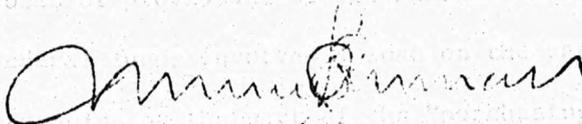
It continues to be the position of the Board of Governors that, for purposes of provisions of law administered by the Board, a transaction in Federal funds involves a loan on the part of the "selling" bank and a borrowing on the part of the "purchasing" bank.

For example, for purposes of section 23A of the Federal Reserve Act, a "sale" of Federal funds by a member bank, whether State or national, to an affiliate of the member bank is subject to the limitations prescribed in that section. Similarly, as the Board has heretofore held (1959 Federal Reserve Bulletin, p. 7), a "sale" of Federal funds by a banking subsidiary of a bank holding company, whether a State or national

bank, to another subsidiary bank in the same holding company system would result in a criminal violation of the provisions of section 6 of the Bank Holding Company Act of 1956.

Enclosed is a copy of an interpretation of the Board regarding this matter in the form in which it will be published in the Federal Register and the Federal Reserve Bulletin.

Very truly yours,



Merritt Sherman,  
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

## BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

## Federal Funds Transactions

It is the position of the Board of Governors of the Federal Reserve System that, for purposes of provisions of law administered by the Board, a transaction in Federal funds involves a loan on the part of the "selling" bank and a borrowing on the part of the "purchasing" bank.

For example, for purposes of section 23A of the Federal Reserve Act, a "sale" of Federal funds by a member bank, whether State or national, to an affiliate of the member bank is subject to the limitations prescribed in that section. Similarly, as the Board has heretofore held (1959 Federal Reserve Bulletin, p. 7), a "sale" of Federal funds by a banking subsidiary of a bank holding company, whether a State or national bank, to another subsidiary bank in the same holding company system would result in a criminal violation of the provisions of section 6 of the Bank Holding Company Act of 1956.

September 9, 1963.