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Minutes for October 3, 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

mm

Gov. Mills

[Signature]

Gov. Robertson

[Signature]

Gov. Balderston

CCB

Gov. Shepardson

[Signature]

Gov. Mitchell

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on Thursday, October 3, 1963. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Johnson, Director, Division of Personnel Administration
Mr. Schwartz, Director, Division of Data Processing
Mr. Shay, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Sprecher, Assistant Director, Division of Personnel Administration
Mrs. Semia, Technical Assistant, Office of the Secretary
Mr. Veenstra, Chief, Call Report Section, Division of Bank Operations

Section 32 question involving Provident Life Insurance Company (Item No. 1). In a letter dated September 4, 1963, the Board informed the Federal Reserve Bank of Chicago of its opinion as to the applicability of section 32 of the Banking Act of 1933 to the interlocking service of certain individuals as directors or officers of member banks and also of the components of the corporate complex of an open-end investment fund, being organized and to be wholly owned by Provident Life Insurance Company, Bismarck, North Dakota. The Board asked the Chicago

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Reserve Bank for further information to enable it to determine whether section 32 would prohibit the continuance of interlocking relationships between member banks and Provident Life Insurance Company if the latter should become "primarily engaged" in the issue, distribution, or public sale of shares of its projected subsidiary.

There had been distributed a memorandum dated October 1, 1963, from the Legal Division reporting that, on the basis of information received during a conference with an attorney representing the insurance company and its proposed subsidiary, and in a letter from the attorney dated September 25, 1963, it appeared that the net income of the insurance company from sales of shares of the fund would be relatively insignificant in the immediate future. However, the insurance company's own projection showed that anticipated gross sales of the fund's shares would be about 10 per cent of gross annual income of the company and the fund taken together in about one year. By the time that projection was realized, the memorandum stated, it would seem unfair to allow the insurance company to retain directors of member banks on its board of directors in view of the fact that the mutual funds with which it would be competing were not allowed to have bankers on their boards. The Legal Division recommended that a letter, a draft of which was attached to the memorandum, be sent to the insurance company's counsel informing him that derivation of about one-tenth of annual gross income of the Provident-Fund complex from sales of the fund's shares would indicate that such sales were an

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"essential" or "substantial" part of the insurance company's activities in the sense contemplated by pertinent court decisions. Accordingly, the letter would request that the Federal Reserve Bank of Chicago be informed by the end of the first year's operation of the fund of the amount of gross sales of shares of the fund, by month, during the year. If the annual rate of sales, calculated from those amounts, had begun to approximate the life insurance company's projection, the Reserve Bank should also be informed of the steps the life insurance company was taking in order to bring the membership of its board of directors into conformity with the prohibition of section 32.

During a discussion it was observed that the use of 10 per cent of gross income as a line of demarcation in determining whether a company was or was not "primarily engaged" in the issue, distribution, or public sale of securities was consistent with earlier positions taken by the Board in similar cases and with relevant court decisions. As a legal matter, it would be difficult to say that a company such as Provident was "primarily engaged" on the basis of expectations rather than actual experience. Accordingly, the letter was approved unanimously in a form reflecting textual changes agreed upon during the discussion. A copy of the letter, as approved, is attached as Item No. 1.

Mr. Shay then withdrew from the meeting.

Submission of computer printout as condition report (Items 2 and 3). There had been distributed a memorandum dated September 30,

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1963, from the Division of Bank Operations in connection with a request from a Fifth District member bank for permission to submit a computer printout in lieu of the official condition report form. Attached to the memorandum were a draft of letter to Federal Reserve Bank of Richmond interposing no objection to acceptance of the printout on an experimental basis, and a draft of letter informing the Presidents of all Federal Reserve Banks.

During discussion it was brought out that this was probably a precedent request, with other similar requests to be expected. While some minor tabulating difficulties might be experienced because of differing sizes of forms submitted, it was believed that these could be worked out, and that the granting of the requested permission would be looking toward the future, when electronic processing would doubtless be extended to additional aspects of bank accounting and reporting. Question was raised as to whether the submission of call reports on computer printouts would present any difficulty from the standpoint of the legal requirement that condition reports of member banks be published in a newspaper of daily circulation. Response was made that the information on the printout would be the same as that on the official report form except, perhaps, for some differences in abbreviations, and that a printing compositor should be able to read it as easily as the official form.

After further discussion, the letters to the Federal Reserve Bank of Richmond (subject to minor editorial changes to be made by the

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staff) and to the Presidents of all Federal Reserve Banks were approved unanimously. Copies of the letters, as sent, are attached as Items 2 and 3.

All of the members of the staff except Messrs. Sherman, Kenyon, Hackley, Johnson, and Sprecher, and Mrs. Semia then withdrew.

Outside business and teaching activities. Before this meeting there had been distributed to the members of the Board a memorandum from the Division of Personnel Administration dated September 13, 1963, presenting information regarding outside business and teaching activities that had been reported by members of the Board's staff in response to the annual survey made under date of August 9, 1963. The Division of Personnel Administration recommended that the Board grant permission to the members of the staff to continue or enter into the activities reported, with the understanding that any individual reporting a writing activity would be advised of the Board's policy regarding honoraria and royalties.

Governor Shepardson stated that he had reviewed the information presented, and had found nothing to question.

The recommendation of the Division of Personnel Administration was thereupon approved unanimously.

The meeting then adjourned.

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

Letter to the Federal Reserve Bank of Chicago (attached Item No. 4)
approving the appointment of Victor D. Spatafora as assistant examiner.

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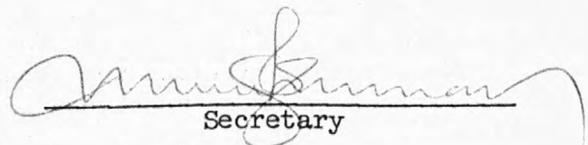
Memorandum from Mr. Young, Adviser to the Board and Director, Division of International Finance, requesting payment of the cost of a dinner at the Cosmos Club on October 3 at which his guests were to be Governor Mitchell, Robert L. Sammons, Adviser in the Division of International Finance, and Javier Marquez, Director, Center for Latin American Monetary Studies.

Memoranda from appropriate individuals concerned recommending the transfers of the following persons on the Board's staff, effective the dates indicated:

Marla Lembo, from the position of Stenographer in the Division of Examinations to the position of Clerk-Stenographer in the Division of Bank Operations, with no change in basic annual salary at the rate of \$4,390, effective October 8, 1963.

Catherine M. Zambri, from the position of Clerk-Stenographer in the Division of Personnel Administration to the position of Clerk-Stenographer in the Division of Research and Statistics, with no change in basic annual salary at the rate of \$4,110, effective October 3, 1963.

Fayette Didjunas, from the position of Clerk-Stenographer in the Division of Personnel Administration to the position of Stenographer, Division of Examinations, with no change in basic annual salary at the rate of \$4,030, effective October 7, 1963.


Secretary

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

Item No. 1
10/3/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 3, 1963.

Mr. Leo Herzel,
Mayer, Friedlich, Spiess,
Tierney, Brown & Platt,
231 South LaSalle Street,
Chicago 4, Illinois.

Dear Mr. Herzel:

This refers to your letter of September 25, 1963, as well as to your letter of September 16, 1963, and to the discussion which you had on that day with Mr. Shay and Miss Hart of the Board's staff in regard to the question whether Provident Life Insurance Company, Bismarck, North Dakota ("Provident"), should be regarded as "primarily engaged" in the issue, distribution, or public sale of shares of PLICO Fund, Inc. ("Fund"), an open-end investment fund, within the meaning of the prohibition in section 32 of the Banking Act of 1933, as amended, so that a director, officer, or employee of a member bank of the Federal Reserve System would be forbidden to serve Provident at the same time in any such capacity.

It is clear that Provident is not as yet "primarily engaged" in business of a kind described in section 32 with respect to the shares of Fund, since the issue and sale of such shares has not yet commenced. Nor would Provident be so engaged in the preliminary stages of Fund's existence, when the disproportion between the insurance business of Provident and the sale of Fund shares would be very great. However, it is also clear that if Fund is successfully launched, its activities will rather quickly reach a stage where a serious question would arise as to the applicability of the prohibition in section 32.

Your letter of September 25 states that "Fund estimates that it may sell annually 100,000 shares" which, based on present values, would produce annual gross receipts of over \$1 million from such sales. Provident's total gross income for 1962 was almost \$10 million. On this basis, about one-tenth of annual gross income of the Provident-Fund complex (more than one-tenth, if income from investments of Provident is eliminated) would be derived from sales of Fund shares. While total sales of shares of Fund during

Mr. Leo Herzel

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the first year might not approximate expectations, it is assumed that if the estimate or projection is correct, the annual rate of sale might well rise to that level before the end of the first year of operation.

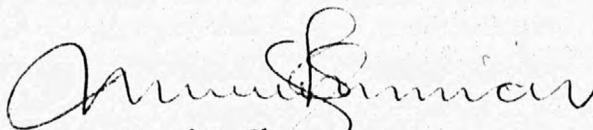
According to your letter of September 25, net income of Provident from Fund's operations would be minimal for the foreseeable future. However, it is understood that Provident's chief reason for launching Fund is to provide salesmen for Provident (who will be the only sellers of shares of Fund, and most of whom, Provident hopes, will qualify to sell those shares), with a "package" of mutual fund shares and life insurance policies that will provide increased competitive strength in a highly competitive field.

In the light of the foregoing considerations and all of the information that has been submitted, the Board is of the view that Provident would be "primarily engaged" in issuing or distributing shares of Fund within the meaning of section 32 by not later than the time of realization of the aforementioned estimate or projection. As indicated in Board of Governors v. Agnew, 329 U. S. 441 at 446, the prohibition of the statute applies if the section 32 business involved is "substantial".

This is not, of course, to suggest that members of the board of directors of Provident who are also directors of member banks would be likely, as individuals, to use their positions with the banks to further sales of Fund's shares. As the Supreme Court pointed out in the same opinion, section 32 is a "preventive or prophylactic measure". The fact that the individuals involved "have been scrupulous in their relationships" to the banks in question "is immaterial".

In the circumstances, it would be appreciated if you would advise the Federal Reserve Bank of Chicago, by the end of the first year's operation of Fund, of the amount of gross sales of shares of Fund, month by month, during the year. If the annual rate of sales, calculated from those amounts, has begun to approximate the aforementioned projection, the Federal Reserve Bank should be advised also of the steps Provident is taking in order to bring the membership of its board of directors into conformity with the prohibition of section 32.

Very truly yours,



Merritt Sherman,
Secretary.

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

Item No. 2
10/3/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 11, 1963.

Mr. John C. Horrigan, Chief Examiner,
Federal Reserve Bank of Richmond,
Richmond, Virginia 23213.

Dear Mr. Horrigan:

This refers to Mr. E. T. Shipley's letter to you dated August 29, proposing that Wachovia Bank and Trust Company be permitted to submit a computer printout in condition report format in place of the official form.

Since the proposed procedure has obvious merit, consideration was given to whether it complies with the present law and regulations. Also, since this is likely to be the first of other similar proposals, it has been given careful study by the several Board divisions involved.

A review of the Federal Deposit Insurance and Federal Reserve Acts and informal conversations with the Corporation's Fiscal Agency staff indicate that a computer printout that closely follows the official form could be accepted. The proposed form would serve the purposes that the condition report was intended to serve; a publisher could prepare the required notice from such a format in exactly the same way as from the official form; and it would be entirely satisfactory for supervisory purposes.

It is only in processing the report as a statistical document that serious problems enter, which might preclude acceptance of the condition report on other than the prescribed form. Editing of the report and keypunching into a uniform card layout from a wide variety of sizes and shapes of source documents would be difficult and more expensive. As commercial banks have found in their attempts to apply electronic processing techniques to their check and bookkeeping operations, uniformity in size and location of significant data are important factors for efficient operations. It is understood that many banks have gone to substantial effort and expense to standardize check

Mr. John C. Horrigan

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forms and other documents they expect to keypunch and process by electronic techniques. For these reasons, any move away from standardization of format in any of the statistical documents that keypunch operators are expected to handle expeditiously could involve temporary increases in tabulating costs more than offsetting any saving at the banks in copying the numbers to the official form and typing the report.

The long range hope is that computer systems at the reporting banks can be adapted to serve economically the needs for statistical information. The day may come when banks will be able to transmit requested data from their own computer systems via tape or wire directly to the computer systems maintained by the supervisory agencies. Possibly some day these data will be prepared at banks and transmitted automatically without ever leaving machine language between the insertion of a record of a deposit of a personal or business check at the banks and the final summary printout of total demand deposits of all banks in a given State or the United States. Mr. Shipley's proposal may hasten that day.

In sum, the Board has no objection to your acceptance of the proposal of Mr. Shipley of Wachovia Bank and Trust Company on an experimental basis, but this is a question of operating procedures which, more appropriately, should be answered by the individual Reserve Banks where the condition reports are keypunched and edited. If acceptance would not create operating difficulties at your Bank, it will be satisfactory to the Board if you respond affirmatively to Mr. Shipley regarding his proposal; and in that event it is suggested that similar replies be made to other inquiring banks up to the point that the variety of forms does create a problem. At that time, the experience at your Bank and similar experiences at other Reserve Banks might be resolved to one agreed format.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3
10/3/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 14, 1963.

Dear Sir:

Enclosed for your information is a copy of a letter to the Chief Examiner at the Federal Reserve Bank of Richmond with reference to acceptance of reports of condition of State member banks on a form other than the official form provided for that purpose.

The computer printout proposed by the member bank is identical to the official form in format and content, differing only in size of paper (9 x 17), size of type, abbreviations used, and number of pages.

Very truly yours,



Merritt Sherman,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS



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

Item No. 4
10/3/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 3, 1963.

CONFIDENTIAL (FR)

Mr. Leland Ross, Vice President,
Federal Reserve Bank of Chicago,
Chicago, Illinois.

Dear Mr. Ross:

In accordance with the request contained in your letter of September 26, 1963, the Board approves the appointment of Victor D. Spatafora as an assistant examiner for the Federal Reserve Bank of Chicago. Please advise the effective date of the appointment.

It is noted that Mr. Spatafora is indebted to The First National Bank of Highland Park, Highland Park, Illinois. Accordingly, the Board's approval of Mr. Spatafora's appointment is given with the understanding that he will not participate in any examination of that bank until his indebtedness has been liquidated.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

