Minutes for November 7, 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 WM

Gov. Mills

Gov. Robertson R

Gov. Balderston CCB

Gov. Shepardson

Gov. Mitchell

Minutes of the Board of Governors of the Federal Reserve System on Thursday, November 7, 1963. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Shay, Assistant General Counsel
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Mattras, General Assistant, Office of the Secretary
Miss Hart, Senior Attorney, Legal Division

Discount rates. The establishment without change by the Federal Reserve Bank of Richmond on November 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.

Circulated or 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 Nassau Trust Company, Glen Cove, New York, approving the establishment of a branch at 198A Glen Cove Avenue. 1

Letter to the Federal Reserve Bank of Boston expressing the opinion that section 32 of the Banking Act of 1933 would forbid service by Howard Whitmore, Jr., Vice President of John P. Chase, Inc., as a director of the Newton National Bank, Newton, Massachusetts. 2

In connection with Item No. 2, Governor Balderston stated that there had been a number of cases in this general area where he had felt that a piercing of the corporate veil might have been appropriate. He inquired whether the rules of the Securities and Exchange Commission in connection with regulated investment companies might not be helpful in studying this type of problem in the future. Miss Hart expressed the opinion that, since the rules of the Commission were directed primarily at protecting shareholders, they could not be relied on exclusively in section 32 cases. In some instances, however, a more detailed investigation of the facts could indicate close relationships, and such information might be helpful to the Board. Mr. Shay stated that the staff had reviewed this matter several years ago and had reached the same conclusion as expressed by Miss Hart.

Messrs. Shay and Leavitt and Miss Hart then withdrew from the meeting.

Federal Reserve notes (Items 3 and 4). At the meeting on November 6, 1963, the Board approved a letter to the Federal Reserve Banks regarding the distribution of low-numbered $1 Federal Reserve notes with the understanding that the letter, when sent, would transmit for comment a draft of press release (that the Board have available at a later meeting) concerning the issuance of the $1 notes. Pursuant to that understanding, there had been distributed a draft press release on this subject prepared by the Board's staff and cleared by the Department of the Treasury.

After discussion, during which certain tentative suggestions were made for possible changes in the draft statement, it was agreed that the draft press release, in its present form, would go out to the Reserve Banks with the letter approved on November 6 to obtain any comments the Banks might wish to offer prior to further consideration of the matter by the Board. Copies of the letter and the draft press release are attached to these minutes as Items 3 and 4.

Correspondent banking survey. Mr. Solomon reported that he had been advised by the Federal Deposit Insurance Corporation that there had been less than a full response to the questionnaire sent out recently by the House Banking and Currency Committee in connection with correspondent banking practices. It was understood that the Corporation was planning to go forward with steps to encourage replies from banks that had not responded, including State member and national banks as well as nonmember insured banks.

Reserve Bank expenditures. Governor Balderston reported telephone conversations he had had with Chairman Patman of the House Banking and Currency Committee with regard to information requested by the Committee concerning Reserve Bank expenditures in various categories. Governor Balderston stated that after having had an informal check made with Reserve Banks, he had advised Chairman Patman that the information requested was being worked on vigorously and would be supplied as soon as possible, although the scope of the work involved required a considerable expenditure of time.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum from the Division of Administrative Services, Governor Shepardson today approved on behalf of the Board an increase in the basic annual salary of Lee W. Joyner from $3,455 to $3,665, with a change in title from Messenger to Mail Clerk-Messenger in that Division, effective November 10, 1963.

Secretary

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

Item No. 1
11/7/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 7, 1963.

Board of Directors,
Nassau Trust Company,
Glen Cove, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Nassau Trust Company, Glen Cove, New York, of a branch at 198A Glen Cove Avenue, Glen Cove, Nassau County, New York, 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.)

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

Item No. 2
11/7/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 7, 1963.

Mr. Laurence H. Stone,
Secretary and Assistant
General Counsel,
Federal Reserve Bank of Boston,
Boston, Massachusetts. 02106

Dear Mr. Stone:

This refers to correspondence you have had with Mr. Hackley and Mr. Shay, of the Board's Legal Division, in regard to the question whether the interlocking service of Mr. Howard Whitmore, Jr., as vice president of John P. Chase, Inc. ("Manager") and as a director of the Newton National Bank, Newton, Massachusetts, is prohibited by section 32 of the Banking Act of 1933 and the Board's Regulation R.

Section 32, as you know, forbids any officer, director, or employee of any corporation "primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities . . ." to serve at the same time as an officer, director, or employee of a member bank.

Manager has, for the past five years at least, served a number of different open-end or mutual funds, as well as individuals, institutions, and other clients, as an investment advisor and manager. However, it appears that Manager has a close relationship with two of the mutual funds which it serves, Shareholder's Trust of Boston ("Shareholders"), and The Chase Fund of Boston ("Chase Fund"). A wholly-owned subsidiary of Manager, Chase Distributors Corporation ("Distributors"), serves as distributor for the two mutual funds and has no other function. In addition, Mr. John P. Chase, himself, who is chairman and treasurer of Manager, as well as Mr. William J. Kirk, who is president, assistant treasurer, and a director of Manager, are officers and directors of Distributors and trustees of both funds. It appears also that a director of Manager is president and director of Distributors, while the clerk of Manager is also clerk of Distributors. Manager, Distributors, and both funds are listed at the same address in the Boston telephone directory.

While the greater part of the total annual income of Manager during the past five years (ranging roughly from $335,000 to $897,000) has derived from "individuals, institutions, and other clients", it appears that a substantial portion has been attributable to the involvement with Shareholders and with Chase Fund. During each of the last four years, that portion has exceeded a third of the total income of Manager, and in 1962 it reached nearly 40 per cent.

The Board has consistently held that an open-end or mutual fund is engaged in the activities described in section 32, so long as it is issuing its securities for sale, since it is apparent that the more or less continued process of redemption of the stock issued by such a company would restrict and contract its activities if it did not continue to issue the stock. A fortiori, a corporation which is engaged in underwriting or selling open-end shares, is so engaged.

In connection with incorporated manager-advisors to open-end or mutual funds, the Board has expressed the view in a number of cases that where the corporation served a number of different clients, and the corporate structure was not interlocked with that of mutual fund and underwriter in such a way that it could be regarded as being controlled by or substantially one with them, it should not be held to be "primarily engaged" in section 32 activities. On the other hand, where a manager-advisor was created for the sole purpose of serving a particular fund, and its activities were limited to that function, the Board has regarded the group as a single entity for purposes of section 32.

In the present case, the selling organization is a wholly-owned subsidiary of the advisor-manager, hence subject to the parent's control. Stock of the subsidiary will be voted according to decisions by the parent's board of directors, and presumably will be voted for a board of directors of the subsidiary which is responsive to policy lines laid down by the parent. Financial interests of the parent are obviously best served by an agressive selling policy, and, in fact, both the share and the absolute amount of the parent's income provided by the two funds have shown a steady increase over recent years. The fact that dividends from Distributors have represented a relatively small proportion of the income of Manager, and that there were, indeed, no dividends in 1961 or 1962, does not support a contrary argument, in view of the steady increase in total income of Manager from the funds and Distributors taken as a whole.

In view of all these facts, the Board has concluded that the separate corporate entities of Manager and Distributors should be disregarded and Distributors viewed as essentially a selling arm of Manager. As a result of this conclusion, section 32 would forbid Mr. Whitmore's interlocking service as an officer of Manager and a director of the Newton National Bank.

It should be noted that the Board's staff has been informed that Mr. Whitmore has a securities salesman's license, and has sold a few hundred shares of Shareholders and of The Chase Fund to members of his family and to at least one other person. However, in view of the foregoing conclusion of the Board, it is unnecessary for it to pass on the question whether this activity would make Mr. Whitmore "primarily engaged" as an individual in section 32 activities.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 3
11/7/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 8, 1963.

Dear Sir:

Replies to the Board's telegram of October 21, 1963, concerning the new $1 Federal Reserve notes indicated that there was no disagreement among the Reserve Banks with the Board's feeling that it would be undesirable to release any very low numbered notes to individuals, regardless of their position, and that a uniform System policy in this regard would be desirable. There were, however, several somewhat differing ideas with respect to the suggestion that the low numbered notes be exchanged among the Banks for exhibit purposes.

While most Banks expressed an interest in setting up an exhibit, one Bank stated a preference for an arrangement under which all notes beginning with Number 1 would be paid out, with the first 100 notes being sorted at random into the fit currency payments. This Bank felt that such a procedure, properly controlled and spread over a period of several days, would provide an indiscriminate distribution of the low numbered notes in a way that their final destination would be unknown. Another Bank suggested that, if possible, no use be made of numbers up to 1,000 in the printing of the new notes.

There were several ideas as to how the low numbered notes might be exchanged among the various Banks, and as to what might be done with the remaining low numbered notes. Some of the replies were confined to the distribution of the first 13 notes, while others suggested that some Banks might want to have enough notes to put together several exhibits, including some for Branch purposes. As an illustration of the complexity of possible arrangements, two of the suggested distribution plans are enclosed.

Various suggestions were also received with regard to the distribution of low numbered notes not used for exhibit purposes. These suggestions included, for example, a proposal that unused numbers up to 4,000 be kept until January 1, 1965, and then mixed in with fit payments, and another proposal that numbers up to 1,000 be mutilated and destroyed.

After reviewing this matter in the light of the replies to its October 21, 1963, telegram, the Board believes that the best interests of the System would be served by a program under which--

(1) Each Reserve Bank would hold unopened the first package (Nos. 1 - 4,000) of its new $1 notes until there can be System agreement as to how the notes in this package should be exchanged among the Banks and otherwise disposed of.

(2) The question of arrangements for exchange and other disposition of the first 4,000 notes would be referred to an appropriate System committee for recommendations, and such recommendations would be subject to the following limitations.

(3) No Federal Reserve Bank or Branch would put any of the new $1 Federal Reserve notes directly into circulation before January 1, 1964, except through a member bank--e.g., none would be used at its public windows or for payrolls for its own employees. Such a procedure would contemplate that each Federal Reserve office would continue to use $1 silver certificates for its own purposes during this period.

(4) No low numbered notes or any other notes with premium value would be made available at any time to any director, officer, or employee of the Board or of any Federal Reserve Bank or Branch.

(5) One low numbered note from each Bank would be forwarded to the Board for exhibit purposes, under an arrangement which would give the Board a set of notes all bearing the same number.

Present indications are that the silver situation will require some payments of the $1 Federal Reserve notes around the end of November. It is contemplated that an initial supply of more than $50 million of the new notes will be furnished the various Banks and Branches, and that all offices will begin the use of these notes at the same time and at such date as advised by the Board. In order to minimize hoarding by collectors and dealers, it would seem desirable to put the new notes into circulation as rapidly as possible, and to confine payments exclusively to these notes until the initial supply is exhausted. It is hoped that such an arrangement will permit an equitable distribution of the new notes to all member and nonmember banks.

Enclosed is a draft of a proposed press release on which the Board would appreciate your comments as soon as possible.

Very truly yours,

Merritt Sherman,
Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

November 7, 1963.

PROPOSED PRESS RELEASE -- BOARD-TREASURY STAFF DRAFT

The Board of Governors of the Federal Reserve System and the Treasury Department announced today that more than 50 million new $1 Federal Reserve notes are going into circulation. Issuance of the new $1 notes, authorized by Congress last June, has already begun at all 12 Federal Reserve Banks and their 24 Branches to commercial banks in every part of the country. This will make more silver available for coinage purposes and help to meet the increased demand for currency in connection with pre-Christmas business.

The new $1 Federal Reserve notes closely resemble the present $1 silver certificates. The back of the new notes and the portrait of George Washington on the face will be exactly the same as the silver certificates. The main difference will be the addition of a symbol, appearing to the left of the portrait, identifying the issuing Federal Reserve Bank and the wording on the face of the bill. The notes bear the signatures of the Secretary of the Treasury and the Treasurer of the United States, as do Federal Reserve notes of other denominations.

The new notes will read (above the portrait): "The United States Of America" and (below the portrait) "One Dollar." The legend, "This Note Is Legal Tender For All Debts, Public and Private," appearing on the silver certificates will also appear on the new Federal Reserve notes. As the new Federal Reserve notes are not backed by silver, they will not contain the language: "This Certifies That There Is On Deposit In The Treasury Of The United States Of America" (above the portrait) and "One Dollar In Silver Payable To The Bearer On Demand" (below the portrait).

To facilitate the widest possible distribution, the entire initial supply of the new notes is being distributed through normal commercial banking channels; none of the first 50 million notes will be available to the public at any of the Federal Reserve Banks or Branches.

No more $1 silver certificates will be printed. Existing stocks will be put into circulation, and as these certificates wear out they will be replaced by the $1 Federal Reserve notes. This change will permit the silver previously pledged against these certificates to be used for coinage purposes.

Federal Reserve notes have been our basic circulating currency for many years, comprising over 85 per cent (more than $30 billion) of the face amount of all currency in circulation today. They are backed 100 per cent by collateral in the form of gold, U. S. Government securities, or short-term paper discounted or purchased by the Federal Reserve Banks. A gold reserve of 25 per cent of the face value of all Federal Reserve notes in circulation is also required by law, and this may be used as part of the full collateral requirement.