Minutes for January 29, 1964

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 proposed to place in the record of policy actions required to be kept under the provisions of section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below:

Page 13 Amendment to Regulation D, Reserves of Member Banks.

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.

Chairman Martin

Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. Mitchell

Gov. Daane

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, January 29, 1964. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Young, Adviser to the Board and Director, Division of International Finance
Mr. Noyes, Adviser to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research and Statistics
Mr. Solomon, Director, Division of Examinations
Mr. O'Connell, Assistant General Counsel
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. Thompson, Assistant Director, Division of Examinations
Mr. Sprecher, Assistant Director, Division of Personnel Administration
Mrs. Semia, Technical Assistant, Office of the Secretary
Mr. Hricko, Senior Attorney, Legal Division
Mr. Doyle, Attorney, Legal Division
Mr. Poundstone, Review Examiner, Division of Examinations

Application of Navajo Bancorporation (Item No. 1). There had been distributed a memorandum dated January 24, 1964, from the Division of Examinations regarding the application of Navajo Bancorporation, Inc.,

Phoenix, Arizona, for (1) a section 301 determination exempting it from all holding company affiliate requirements except those in section 23A of the Federal Reserve Act, or (2) a limited voting permit covering its stock of The First Navajo National Bank, Holbrook, Arizona. In addition to the ownership of 81.7 per cent of the shares of that bank, the applicant owned 14 per cent and 5 per cent, respectively, of the shares of two other banks. The combined investments in the three banks represented 69.2 per cent of the applicant's total assets as of December 9, 1963. The memorandum observed that, although favorable section 301 determinations had been made for organizations that owned substantial interests in banks other than the subsidiary, such investment in bank stocks had not been as large in relation to total assets as in the present case. Since the applicant contemplated disposing of its investment in one of the banks in which it held a minor interest, and in view of the fact that the voting permit was requested for routine purposes, the Division recommended that the permit be issued at this time, with the request for a section 301 determination to be resubmitted to the Board at a later date on the basis of the then-existing facts.

The issuance of the limited voting permit was authorized by unanimous vote. A copy of the telegram informing the Federal Reserve Agent at San Francisco of the authorization is attached as Item No. 1.

Messrs. Hooff and Thompson then withdrew from the meeting.

Transactions in bank being liquidated. There had been distributed a memorandum dated January 27, 1964, from Mr. Solomon regarding a telephone

call from the Assistant Chief of the Division of Liquidation of the Federal Deposit Insurance Corporation expressing the Corporation's interest in obtaining from Chase Manhattan Bank and Chemical Bank New York Trust Company, both of New York City, information regarding transfers into or through accounts of certain customers of those banks, the information being desired in connection with the liquidation of Chatham Bank, Chicago, Illinois. The information related to alleged improper use of funds in Chatham Bank and was desired by the liquidator of the bank in connection with proof under the bank's surety bond and possibly in connection with further proceedings. The Corporation did not wish to communicate with the two State member banks in New York for this purpose without checking informally with the Board or its staff as a matter of courtesy. Mr. Solomon suggested that the matter be handled by telephoning the Corporation to express appreciation for the knowledge communicated to the Board regarding the Corporation's plan to request the information, making it clear that the Board had not in any sense granted "permission" but had merely received the advice. It would be stated that the Board had no objection to the Corporation's telling the two banks that the Board had been informed of the Corporation's intended action.

After discussion it was agreed unanimously that the matter would be handled in the manner suggested by Mr. Solomon.

International operations of national banks (Item No. 2). On January 27, 1964, the Board considered a draft of reply to a letter of

December 19, 1963, from the Office of the Comptroller of the Currency inviting the Board's comments on a proposed regulation of the Comptroller relating to "International Operations of National Banks." There had now been distributed a draft of reply revised in the light of comments and suggestions made at the January 27 meeting.

After a discussion during which further revisions were agreed upon, the letter was approved in the form attached as Item No. 2. Messrs. Molony and Fauver were authorized to respond to any inquiries by the press as to the position taken by the Board by furnishing the substance of the Board's letter to the Comptroller. It was also understood that a copy of the reply would be sent to the Legal and Monetary Affairs Subcommittee of the House Committee on Government Operations, which had inquired as to the Board's position regarding the Comptroller's proposed regulation, to the Secretary of the Treasury, to the Chairmen of the Senate and House Banking and Currency Committees, and to each national bank that engaged in any activity covered by sections 25 and 25(a) of the Federal Reserve Act.

Mr. Noyes then withdrew from the meeting.

Loans to executive officers of foreign branches. In a letter dated December 5, 1963, the Federal Reserve Bank of New York submitted a request by Counsel for Morgan Guaranty Trust Company for a ruling by the Board as to whether Morgan Guaranty's officers stationed at its foreign branches who were executive officers within the meaning of the Board's Regulation O, Loans to Executive Officers of Member Banks, might

be granted mortgage loans up to $20,000 by their parent bank. While section 22(g) of the Federal Reserve Act prohibits loans by a member bank to its executive officers in excess of $2,500, section 213.4(f) of Regulation M, Foreign Branches of National Banks, as revised effective August 1, 1963, permits national banks to make loans up to $20,000 for living quarters of executive officers at foreign branches. The revision of Regulation M was issued pursuant to a 1962 amendment to section 25 of the Federal Reserve Act that gave the Board the right to issue regulations permitting foreign branches of national banks to exercise such additional powers as may be usual in connection with the business of banking in the places where such branches transact business. Counsel for Morgan Guaranty had expressed doubt that it was the intention of the Board to permit executive officers of national banks at foreign branches to enjoy a higher borrowing limit than officers of State member banks at foreign branches. In transmitting the request, the Federal Reserve Bank of New York expressed the view that, while the amount that a bank is empowered to lend to its executive officers at foreign branches should not depend upon whether the bank is a national bank or a State member bank, section 25 of the Federal Reserve Act did not give the Board authority to grant State member banks power similar to that granted national banks under the Board's Regulation M. The New York Bank was inclined to believe that Congressional action was required to permit the Board to grant parallel authority to national and State member banks.

There had been distributed a memorandum dated January 24, 1964, from the Legal Division submitting for the Board's consideration a proposed interpretation of section 22(g) of the Federal Reserve Act taking the position that foreign branches of State member banks may make loans to their executive officers to the same extent that is permissible for foreign branches of national banks under Regulation M. The memorandum expressed disagreement with the New York Bank's conclusion that legislation would be necessary to permit equal treatment of the two classes of banks, on the ground that that conclusion failed to take account of the Board's broad statutory power under section 22(g) "to determine what shall be deemed to be a borrowing, indebtedness, loan, or extension of credit, for the purposes of this subsection . . ." The proposed interpretation would state that "The intent of Congress to maintain uniform and equal treatment of national and State member banks is evidenced by the provision regarding establishment of branches in the third paragraph of section 9 of the Federal Reserve Act (12 U.S.C. 321) that 'nothing herein contained shall prevent any State member bank from establishing and operating branches in the United States or any dependency or insular possession thereof or in any foreign country, on the same terms and conditions and subject to the same limitations and restrictions as are applicable to the establishment of branches by national banks . . .'"

After comments by Mr. Doyle summarizing the Legal Division's memorandum, Governor Balderston referred to a case in 1960 in which the

Board had held that certain employees of a State member bank who, although they had no official titles, exercised some discretion to make consumer loans, participated in the "operating management" of the bank, and therefore should be considered "executive officers" for purposes of Regulation O. Although he had participated in the affirmative vote on that occasion, his thinking had subsequently shifted; he did not believe that the statute was intended to apply to lending officers such as those involved in that case. Borrowing without limit was permitted to directors of a bank, who were in a position to influence lending policies, and he did not think that injury would result if the Board should reverse the position taken in 1960. While he did not advocate that the Board be in any hurry to consider the possibility of such a reversal, he wondered if the position taken in the interpretation now presented for consideration would in any way jeopardize freedom of action when and if the Board might see fit to consider the possibility.

Mr. Hackley responded that he did not believe that anything in the interpretation under consideration would prejudice the Board's freedom of action. He noted that subsequent to the 1960 case to which Governor Balderston had referred, the Board had taken a more liberal position in 1962, holding that the definition of executive officer did not apply to certain nonofficial department managers of a State member bank, who, although exercising lending authority, did so within the framework of policy standards set by the bank. The Legal Division had in mind, he added, its assignment to review Regulation O in toto. An

important consideration in that review was the definition of executive officer, as to which the Legal Division had in the past recommended a somewhat broader approach than the Board took in 1960.

Governor Mills commented that he would hope that the approach to the revision of Regulation O would not be unduly overshadowed by a desire for liberalization. As he saw it, the definition of executive officer clearly extended beyond the policy-making area to the responsibility of deciding on credits and similar matters. If the requirement that officers having such responsibility report their borrowings was removed, there would be a risk of eliminating what amounted to a worthwhile internal auditing procedure that examiners could follow to see that the boards of directors of State member banks had sufficient information available to guard against overborrowing on the part of officers.

Governor Robertson stated that he did not subscribe to the reasoning offered in support of the proposed interpretation. The end sought was a desirable one, but the proposed interpretation tried to achieve it, in effect, by construing the law according to convenience, a situation that the Board should be careful to avoid.

Mr. Hackley commented that he felt definitely that the Board could take the proposed position by interpretation, but he would rely for support on the language of section 9 that in effect reserves to State member banks the right to operate foreign branches on the same terms available to national banks. Since Congress by the 1962 amendment

to section 25 had authorized the Board to permit foreign branches of national banks to conduct abroad certain operations that they would not be permitted to conduct in this country, it seemed to follow reasonably that the Board could place foreign branches of State member banks on the same basis as foreign branches of national banks in regard to loans to executive officers. He agreed with the view that it would be arbitrary for the Board, solely on the strength of the language of section 22(g), to hold that something was not a borrowing that clearly was a borrowing.

Mr. Shay commented that when Chairman Martin testified on the amendment of section 25 he had expressed an understanding that the proposed legislation would place national banks and State member banks in an equal position as far as foreign operations were concerned; thus, there was support for the proposed interpretation in legislative history. As a technical matter, he would be inclined to rely primarily on the language of section 22(g), because when one statute was on the books and later legislation was added, it was quite permissible to construe the first statute in the light of the subsequent enactment.

Governor Mitchell expressed the view that the provisions of section 22(g) should be given less emphasis in supporting the proposed interpretation. He felt uneasy when a legal construction seemed to suggest that the language of the law did not mean what it rather clearly appeared to say. In response to a question by Governor Shepardson as to whether section 9 did not in fact provide all the support that was needed,

Governor Mitchell expressed the feeling that it did, after which Chairman Martin commented that it might be well to cite both sections of law.

Governor Shepardson remarked that it appeared to him that using both statutory authorities as support would weaken the Board's position, because questions might be raised if something was covered into the interpretation that was not necessary. The amendment to section 25 that permitted the Board to authorize certain operations in foreign branches that were not permissible in the United States apparently provided sufficient authority.

After further discussion relating to the legal basis that it would be most appropriate to cite for the interpretation, the staff was requested to prepare for the Board's consideration a revised draft based on the views expressed.

Mr. Doyle then withdrew from the meeting.

Status of private banks and branches of foreign banks (Items 3, 4, and 5). In a letter of September 28, 1962, in response to an inquiry from the Federal Reserve Bank of New York relating to the New York City branch of Israel Discount Bank Limited, Tel Aviv, Israel, the Board expressed the view that there was nothing in the Federal Reserve Act that would make it improper for a Federal Reserve Bank to regard such a branch of a foreign bank as a "nonmember bank" within the meaning and for the purposes of the first paragraph of section 13 of the Federal Reserve Act. Accordingly, a Federal Reserve Bank could, in its discretion, establish a nonmember clearing account for such a branch.

In a letter of December 28, 1962, the New York Reserve Bank asked several questions, stated in essence as follows, stemming from the Board's reply to its inquiry: if a nonmember clearing account may be opened for a branch of a foreign bank on the ground that such a branch is a "bank" within the meaning of section 1, paragraph 2, of the Federal Reserve Act, can a similar status and privilege be accorded private banks; does a branch of a foreign bank fall within the term "any bank" in the second sentence of section 22(g) of the Federal Reserve Act, which requires an executive officer of a member bank to report to that bank any indebtedness owed by him to "any bank" other than the member bank; must an executive officer's indebtedness to a private bank be similarly reported; and is a private bank a "bank" under section 19, paragraph 11, of the Federal Reserve Act, which provides that "In estimating the reserve balances required by this Act, member banks may deduct from the amount of their gross demand deposits the amounts of balances due from other banks (except Federal reserve banks and foreign banks) and cash items in process of collection payable immediately upon presentation in the United States, within the meaning of these terms as defined by the Board of Governors of the Federal Reserve System."

There had been distributed a memorandum dated January 24, 1964, from the Legal Division setting forth an extensive exploration of the questions posed by the New York Reserve Bank, including prior interpretations of the Board, legal precedents (which included conflicting court

decisions) and legislative enactments, statistics and State laws relating to private banks, the legislative intent of section 22(g), possible alternatives that might be followed by the Board, and recommendations. The Legal Division's recommendations were reflected in a draft of interpretation, attached to the memorandum, that would incorporate the substance of the Board's reply to the New York Reserve Bank's original question relating to the status of the New York office of Israel Discount Bank; hold that a domestic branch of a foreign bank falls within the term "any bank" in the second sentence of section 22(g) of the Federal Reserve Act and that therefore any indebtedness of an executive officer of a member bank to such a branch must be reported as required by the statute; hold that a private bank may be properly regarded as a "nonmember bank" within the meaning of section 13, paragraph 1, of the Federal Reserve Act and therefore a Federal Reserve Bank may open and maintain a nonmember clearing account for such a bank (this position would supersede a 1917 ruling of the Board); hold that a private bank comes within the term "any bank" in the second sentence of section 22(g) of the Federal Reserve Act and that member bank executive officers therefore must report any indebtedness owed to such a bank; and hold that the term "other banks" in section 19, paragraph 11, of the Federal Reserve Act includes private banks, and therefore balances due therefrom may be deducted by a member bank from its gross demand deposits in estimating required reserve balances (this position would supersede a 1935 interpretation by the Board).

At the Board's request, Mr. Shay commented on the Legal Division's memorandum and recommendations, and after discussion the interpretation was approved unanimously, with the understanding that it would be published in the Federal Register and in the Federal Reserve Bulletin. It was understood that a letter would be sent to the Federal Reserve Banks transmitting the interpretation and that a letter also would be sent to the Federal Reserve Bank of New York. Copies of the letters and the interpretation are attached as Items 3, 4, and 5.

Amendment to Regulation D (Item No. 6). A conforming amendment to section 204.2(b) of Regulation D, Reserves of Member Banks, was necessitated by the portion of the interpretation described in the preceding entry that permitted a member bank, in estimating its required reserve balances, to deduct the amounts of balances due from private banks. Attached to the Legal Division's memorandum of January 24, 1964, was a draft of amendment that would specifically allow deduction of balances due from private banks that reported to and were examined by State banking authorities. Noted on the draft of amendment was a possible alternative to accomplish the same purpose by deleting the present last sentence of section 204.2(b), "The word 'banks' in the term 'due from other banks' refers to incorporated banks and does not include private banks or bankers," thus leaving the interpretation to answer questions of specific application.

After discussion, the suggested alternative amendment to Regulation D was approved unanimously, effective immediately. A copy of the amendment in the form in which it was published in the Federal Register is attached as Item No. 6.

The desirability of a conforming amendment to Regulation D had been mentioned by the Federal Reserve Bank of New York in its letter of December 28, 1962. The Bank had also suggested that the regulation be amended to allow a member bank, in estimating required reserve balances, to deduct balances due from domestic branches of foreign banks. However, the Legal Division recommended that the latter amendment not be adopted at the present time; the question was not free from doubt, and the New York Reserve Bank had stated that it did not regard the matter to be of importance at present. The Board concurred with this recommendation.

Messrs. Solomon, O'Connell, Shay, Conkling, Goodman, Sprecher, Hricko, and Poundstone then withdrew from the meeting.

Record of Board policy actions. A memorandum dated January 27, 1964, from the Office of the Secretary had been distributed submitting for the Board's consideration drafts of entries for the record of Board policy actions to be published in the Annual Report for 1963. There had also been distributed a memorandum dated January 28, 1964, in which Mr. Noyes suggested an alternative presentation of the background circumstances of the Board's action on July 16, 1963, in approving increases in Reserve Bank discount rates and an amendment to Regulation Q, Payment of Interest on Deposits.

During discussion, a view favorable to the use of the draft submitted by Mr. Noyes developed, subject to certain editorial changes being made.

The 1963 policy record entries of the Board, in the form distributed but subject to several changes to reflect editorial suggestions made at this meeting, were then approved unanimously for inclusion in the Board's Annual Report.

Further consideration of policy record of Open Market Committee. The Board had previously approved, for inclusion in its Annual Report for 1963, revised draft entries for the record of policy actions of the Federal Open Market Committee covering the 19 meetings held during 1963. Copies of the revised policy record entries were sent to the Reserve Bank members of the Committee and other Presidents, with the result that Messrs. Hayes and Deming had submitted certain further suggestions for changes.

Mr. Sherman described the suggested changes, each of which was discussed, some being accepted and others rejected.

The policy record of the Federal Open Market Committee for 1963, in the form thus further revised, was then authorized for inclusion in the Annual Report of the Board of Governors.

Request by Joint Economic Committee for policy record (Item No. 7). It was agreed unanimously that the 1963 policy records of both the Board of Governors and the Federal Open Market Committee should be furnished

to the Joint Economic Committee of the United States Congress, as requested by Congressman Reuss at a recent hearing, as well as to the Senate and House Banking and Currency Committees. A copy of the letter transmitting the entries to Chairman Douglas of the Joint Economic Committee is attached as Item No. 7.

The meeting then adjourned.

Secretary's Notes: On January 28, 1964, Governor Shepardson approved on behalf of the Board the following items:

Memorandum from the Division of Data Processing recommending an increase in the basic annual salary of Ray M. Reeder, Digital Computer Systems Operator (Trainee) in that Division, from $4,635 to $5,010, with a change in title to Digital Computer Systems Operator, effective February 2, 1964.

Letter to the Federal Reserve Bank of San Francisco (attached Item No. 8) approving the appointment of Robert B. Fox as assistant examiner.

Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the following actions relating to the Board's staff:

Transfer

Lois Orr, from the position of Clerk-Stenographer in the Division of Research and Statistics to the position of Clerk-Stenographer in the Division of International Finance, with no change in basic annual salary at the rate of $4,355, effective the date of assuming her new duties.

Salary increases, effective February 2, 1964

Name and title	Division	Basic annual salary From	To
	Research and Statistics		
Mary V. F. Baker, Statistical Assistant		$5,650	$5,810
Bessie M. McCrae, Statistical Assistant		5,330	5,490

Salary increases, effective February 2, 1964 (continued)

Name and title	Division	Basic annual salary From	To
	International Finance		
Pauline H. Major, Statistical Assistant		$5,490	$5,650
	Examinations		
George G. Noory, Assistant Review Examiner		7,260	7,490
	Administrative Services		
Margie W. Lakatos, Mailing List Clerk		3,880	3,985
Andrew Fassino, Foreman of Laborers		5,490	5,650
Thresia Elting, Cafeteria Helper		3,620	3,725
	Data Processing		
Helen R. Grunwell, Chief Draftsman		9,810	10,090

Secretary

T E L E G R A M
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 1
1/29/64

WHITMAN -- SAN FRANCISCO

KECEA

A. Navajo Bancorporation, Inc., Phoenix, Arizona.

B. The First Navajo National Bank, Holbrook, Arizona.

C. None.

D. At any time prior to May 1, 1964, at the annual meeting of shareholders of such bank, or any adjournments thereof, to elect directors for the ensuing year and act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such bank.

(Signed) Elizabeth L. Carmichael

CARMICHAEL

Definition of KECEA:

The Board authorizes the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

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

Item No. 2
1/29/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 29, 1964.

Comptroller of the Currency,
Treasury Department,
Washington, D. C. 20220

Dear Mr. Comptroller:

A letter of December 19, 1963, from your Office forwarded a copy of a published Notice (28 Fed. Reg. 13868) containing your proposed regulation relating to "International Operations of National Banks", and invited comments of the Board with respect thereto.

Quite apart from any question concerning the legal basis for your proposal, the Board is of the view that promulgation of the proposed regulation would be unwise.

In sections 9, 25, and 25(a) of the Federal Reserve Act, Congress has centered in the Board for many years power to authorize and regulate the overseas operations of all member banks of the Federal Reserve System, national banks as well as State member banks. Authority of the Board in this area of activity was reaffirmed as recently as 1962 by legislation, subsequently implemented by the Board's Regulation M, permitting some expansion of the powers of foreign branches of national banks.

Under your proposal you would require a national bank to obtain your approval, which would be subject to such terms and conditions as you might prescribe, before engaging in any international operation, notwithstanding the fact that the relevant statutes specifically authorize such operation by the bank subject to the prior approval and regulations of the Board. Obviously, under the law, the national bank would have to obtain Board approval and comply with applicable Board regulations. The proposed regulation, therefore, would set up an overlay of administrative procedure which would duplicate the statutory procedure prescribed by the Congress. In the Board's judgment, this would needlessly burden national banks desiring to exercise powers in accordance with these statutory provisions, for they would feel obliged to obtain your approval as well as the approval, under the statute, of the Board. It would seem almost inevitable that national banks would be faced with conflicting instructions or interpretations.

Comptroller of the Currency -2-

The administrative duplication and confusion that would flow from adoption of your proposal would be an unnecessary encumbrance to the conduct of overseas operations by national banks. These disadvantages clearly are of the kind that Congress meant to avoid by centering authority with respect to foreign banking matters in the Board.

As requested in the aforementioned Notice, a duplicate of this letter is enclosed.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure

Item No. 3
1/29/64

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

S-1905

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 30, 1964.

Dear Sir:

Enclosed is a copy of an interpretation of the Board concerning the status under various provisions of the Federal Reserve Act of certain branches in this country of foreign banks and certain private banks. The interpretation will be published in early issues of the Federal Reserve Bulletin and the Federal Register.

That part of the interpretation relating to the applicability of the term "nonmember bank" in section 13, paragraph 1, of the Act to the domestic branch of a foreign bank was the subject of the Board's letter of September 28, 1962, to the Presidents of all of the Federal Reserve Banks. That subject also prompted the conforming amendment, effective September 27, 1962, to section 210(a) of Regulation J. 1/

Also enclosed is a copy of an amendment to Regulation D, adopted by the Board effective January 29, 1964. The amendment conforms section 204.2(b) of Regulation D to the language of section 19, paragraph 11, of the Federal Reserve Act, which makes no reference to private banks, and is related to that part of the enclosed interpretation concerning the status of private banks under the provision of the statute just cited.

Please arrange for the printing of the amendment to the Regulation and for such distribution thereof in your District as you believe to be desirable.

The amendment will be published in the Federal Register and the Federal Reserve Bulletin in the usual course, but no press release is being issued.

Very truly yours,

Merritt Sherman,
Secretary.

Enclosures

1/ Should have read section 210.2(a) of Regulation J.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 4
1/29/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 30, 1964.

Mr. Alfred Hayes, President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Hayes:

This refers to Mr. Trieber's letter of December 28, 1962, to Chairman Martin concerning the Board's letter to you of September 28, 1962, regarding an inquiry of the New York branch of Israel Discount Bank Limited, Tel Aviv, Israel.

As you know, in that letter the Board expressed the view that nothing in the Federal Reserve Act precluded a Federal Reserve Bank, in its discretion, from opening and maintaining a nonmember clearing account for a domestic branch of a foreign bank, such as the one in question, under section 13, paragraph 1, of the Federal Reserve Act.

Briefly, in the light of that interpretation of the Board, Mr. Trieber's letter asked (1) whether nonmember clearing privileges might properly be extended also to a private bank, such as Brown Brothers Harriman & Company; (2) whether section 19, paragraph 11, of the Federal Reserve Act should be regarded as permitting a member bank, in estimating its required reserves, to deduct balances due from a private bank or a domestic branch of a foreign bank; and (3) whether an executive officer of a member bank should report to his board of directors any indebtedness to a private bank or a domestic branch of a foreign bank. As Mr. Trieber indicated, these questions, like the Board's interpretation of September 28, 1962, involve the meaning of the word "bank" in section 1, paragraph 2, of the Act and in the other relevant provisions of the statute, while question (2) also involves section 204.2(b) of Regulation D.

The foregoing questions, with one exception noted below, are dealt with in the Board's interpretation of this date, a copy of which is enclosed and which will be published in the Federal Reserve Bulletin and the Federal Register. Also enclosed is a copy

of a conforming amendment to section 204.2(b) of Regulation D concerning private banks or bankers.

The Board concluded that it should not, at this time, follow your suggestion that section 204.2(b) of Regulation D be amended also to delete the exception covering domestic branches of foreign banks. This, of course, involves the specific exception of foreign banks in section 19, paragraph 11, of the Act. In addition, your Bank's letter indicated that branches in New York of foreign banks have relatively inconsequential liabilities to member banks and that the matter is not of great importance at present.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DOMESTIC BRANCHES OF FOREIGN BANKS
AND PRIVATE BANKS AS "BANKS"

Item No. 5
1/29/64

(a) Domestic branch of foreign bank a "nonmember clearing bank". The Board has been asked whether a branch in this country of a foreign bank is a "nonmember bank" within the meaning of section 13, paragraph 1, of the Federal Reserve Act (12 U.S.C. 342) and, therefore, an institution of the kind for which a Federal Reserve Bank may open and maintain a nonmember clearing account pursuant to the statute.

According to the information before the Board, the foreign bank is an incorporated commercial banking institution. The branch is licensed by the bank supervisory authority of the State in which it is located. The business of the branch does not appear to differ essentially from that usually conducted by a commercial bank; and, under the law of the State, the branch is subject to regulation and supervision comparable in important respects to that applicable to State-chartered banks.

The Board has concluded that such a branch, being a "bank" within the definition of that term in section 1, paragraph 2, of the Act (12 U.S.C. 221) but ineligible for membership in the Federal Reserve System under section 9 of the Act (12 U.S.C. 321), is a "nonmember bank" to which nonmember clearing privileges may be made available in the discretion of the Federal Reserve Bank of the district pursuant to section 13, paragraph 1, of the Act.

(b) Domestic branch of foreign bank a "bank" under section 22(g) of the Act. A related inquiry received by the Board is whether a branch in this country of a foreign bank, such as the one involved under (a) above, falls within the term "any bank" in the second sentence of section 22(g) of the Federal Reserve Act (12 U.S.C. 375a), which requires an executive officer of a member bank to report to that bank any indebtedness owed by him to "any bank" other than the member bank.

The Board is of the view that, for reasons similar to those determinative of the matter set forth in (a) hereof, such a branch clearly is within the words "any bank" in section 22(g) of the Act, and that, accordingly, any indebtedness of an executive officer of a member bank to any such branch must be reported as required by the statute.

(c) Private bank a "nonmember clearing bank". In connection with the matters covered under (a) and (b) above, the Board has been asked whether a private bank, as described below, may be properly regarded as a "nonmember bank" within the meaning of section 13, paragraph 1, of the Federal Reserve Act (12 U.S.C. 342) and, therefore, as a bank of the kind for which a Federal Reserve Bank may open and maintain a nonmember clearing account pursuant to the statute.

Private banks are unincorporated and, therefore, ineligible for membership in the Federal Reserve System under section 9 of the Federal Reserve Act (12 U.S.C. 321). The private bank with respect to which the question arose operates pursuant to authority in the law of the State of its location, conducts a banking business similar to that of incorporated commercial banks, and maintains required reserves

pursuant to State law. Such private bank is examined periodically by and submits reports of condition to the State authority responsible for its supervision pursuant to the law of the State wherein it maintains banking offices. It seems clear that the private bank conforms to the policy and terms set forth by Congress for engaging in the banking business, whether by individuals, firms, corporations, or other organizations, in section 21(a)(2) of the Banking Act of 1933, as amended (12 U.S.C. 378).

The Board is of the opinion that, in view of the foregoing and in the light of its conclusion in (a) hereof, any such private bank constitutes a "bank" within the definition of that term in section 1, paragraph 2, of the Federal Reserve Act (12 U.S.C. 221) and a "nonmember bank" under the language of section 13, paragraph 1, of the Act. Accordingly, a Federal Reserve Bank, in its discretion, may make available to any such private bank in the district nonmember clearing privileges as described in the statute.

These views of the Board supersede the interpretation regarding private banks published at 1917 Federal Reserve Bulletin 693 and any other interpretations to the extent that they conflict with these views, and to that extent such interpretations are hereby revoked.

(d) Private bank a "bank" under section 22(g) of the Act. The Board has received an inquiry related to the matters covered under (b) and (c) above. The question is whether a private bank,

such as the one involved in (c), comes within the term "any bank" in the second sentence of section 22(g) of the Federal Reserve Act (12 U.S.C. 375a). That statute requires any executive officer of a member bank to report to that bank any indebtedness owed by him to "any bank" other than the member bank.

The Board's view is that any indebtedness of an executive officer of a member bank to any such private bank must be reported as required by the aforementioned provision of section 22(g) of the Act since, as indicated in (c) hereof, the private bank clearly is within the words "any bank" as used in the statute.

These views of the Board supersede any other previous interpretations to the extent that they conflict with these views, and to that extent such interpretations are hereby revoked.

(e) Private bank a "bank" under section 19, paragraph 11, of the Act. In connection with the matters covered in (c) and (d) above, the Board was asked whether, in computing its required reserves under section 19, paragraph 11, of the Federal Reserve Act (12 U.S.C. 465), a member bank may deduct any balance due from a private bank of the kind involved in those paragraphs. The statute provides that:

> "In estimating the reserve balances required by this Act, member banks may deduct from the amount of their gross demand deposits the amounts of balances due from other banks (except Federal reserve banks and foreign banks) and cash items in process of collection payable immediately upon presentation in the United States, within the meaning of these terms as defined by the Board of Governors of the Federal Reserve System." (Emphasis added)

The Board regards this question as governed by its views in (c) and (d) hereof. Accordingly, as the term "other banks" in the statute includes such private banks, balances due therefrom may be deducted in accordance with the provisions of section 19, paragraph 11, of the Act.

These views of the Board supersede the interpretation referring to private banks published at 1935 Federal Reserve Bulletin 108 and any other interpretations to the extent that they conflict with these views, and to that extent such interpretations are hereby revoked.

January 30, 1964.

Item No. 6
1/29/64

TITLE 12 - BANKS AND BANKING

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. D]

PART 204 - RESERVES OF MEMBER BANKS

Computation of Reserves

1. Effective January 29, 1964, § 204.2(b) is amended to read as follows:

§ 204.2 - Computation of Reserves.

* * * *

(b) Deductions allowed in computing reserves. - In determining the reserve balances required under the terms of this part, member banks may deduct from the amount of their gross demand deposits the amounts of balances subject to immediate withdrawal due from other banks and cash items in process of collection as defined in § 204.1(g). Balances "due from other banks" do not include balances due from Federal Reserve banks, balances (payable in dollars or otherwise) due from foreign banks or branches thereof wherever located, or balances due from foreign branches of domestic banks.6/

2a. The purpose of this amendment is to eliminate from § 204.2(b) the sentence thereof which excluded private banks or bankers from the word "banks" in the term "due from other banks", so as to conform

6/ A member bank exercising fiduciary powers may not include in balances "due from other banks" amounts of trust funds deposited with other banks and due to it as trustee or other fiduciary. If trust funds are deposited by the trust department of a member bank in its commercial or savings department and are then redeposited in another bank subject to immediate withdrawal they may be included by the member bank in balances "due from other banks," subject to the provisions of § 204.2(b).

the language of § 204.2(b) in this respect to section 19, paragraph 11, of the Federal Reserve Act (12 U.S.C. 465).

b. The notice, public participation, and deferred effective date described in section 4 of the Administrative Procedure Act are not followed in connection with this relaxing amendment for the reasons and good cause found as stated in paragraph (e) of § 262.1 of the Board's Rules of Procedure (Part 262 of this chapter), and specifically because in connection with this amendment such procedures are unnecessary as they would not aid the persons affected and would serve no other useful purpose.

(Sec. 11(i), 38 Stat. 262; 12 U.S.C. 248(i). Interpret or apply 12 U.S.C. 248(c), 461, 462, 462a-1, 462b, 464, 465.)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 7
1/29/64

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

January 31, 1964.

The Honorable Paul H. Douglas,
Chairman,
Joint Economic Committee of the
United States Congress,
Washington, D. C. 20510

Dear Mr. Chairman:

At the hearing before the Subcommittee on Domestic Finance of the House Committee on Banking and Currency, held on January 22, 1964, Congressman Reuss indicated that it would be helpful if we supplied to the Joint Economic Committee the Record of Policy Actions to be published in the Board's Fiftieth Annual Report in advance of publication of that Report and prior to the conclusion of the Joint Committee's current hearings.

In accordance with that request there are enclosed 20 mimeographed copies of the Records of Policy Actions taken by both the Federal Open Market Committee and the Board of Governors of the Federal Reserve System during 1963, in the form in which these Records will be included in the Board's Fiftieth Annual Report. As I indicated to Congressman Reuss at the January 22 hearings, we hope to deliver the full Annual Report to the Speaker of the House, for the information of the Congress, by March 15.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures

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

Item No. 8
1/29/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 29, 1964

CONFIDENTIAL (FR)

Mr. E. H. Galvin, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco, California 94120.

Dear Mr. Galvin:

In accordance with the request contained in Mr. Cavan's letter of January 21, 1964, the Board approves the appointment of Robert B. Fox as an assistant examiner for the Federal Reserve Bank of San Francisco. Please advise the effective date of the appointment.

It is noted that Mr. Fox is indebted to the Pacific National Bank, San Francisco, California. Accordingly, the Board's approval of the appointment of Mr. Fox is given with the understanding that he will not participate in any examination of that bank until his indebtedness has been liquidated.

It is also noted that Mr. Fox's wife owns 250 shares of stock in the B. M. Behrends Bank, Juneau, Alaska, a nonmember bank, and he will not participate in any examination of that bank so long as shares are held in his family.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.