

Minutes for March 31, 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 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

Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. Mitchell

Gov. Daane

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, March 31, 1964. 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. Daane

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Hackley, General Counsel  
Mr. Farrell, Director, Division of Bank Operations  
Mr. Solomon, Director, Division of Examinations  
Mr. Shay, Assistant General Counsel  
Mr. Goodman, Assistant Director, Division of Examinations  
Mr. Leavitt, Assistant Director, Division of Examinations  
Mrs. Semia, Technical Assistant, Office of the Secretary  
Mr. Egertson, Supervisory Review Examiner, Division of Examinations  
Mr. Poundstone, Review Examiner, Division of Examinations

Ratification of action (Item No. 1). The action taken on March 30, 1964, in sending a telegram to the Federal Reserve Bank of San Francisco approving the operation in temporary quarters of the Crescent City, California, branches of United California Bank, Los Angeles, California, and Wells Fargo Bank, San Francisco, California, was ratified by unanimous vote. A copy of the telegram is attached as Item No. 1.

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on March 30, 1964, of the rates on discounts and

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advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

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

	<u>Item No.</u>
Letter to Five Points National Bank of Miami, Miami, Florida, granting its request for permission to maintain reduced reserves.	2
Letter to the Federal Reserve Bank of San Francisco waiving the assessment of penalties incurred by Zions First National Bank, Salt Lake City, Utah, because of deficiencies in its required reserves.	3
Letter to the Federal Deposit Insurance Corporation regarding the application of Greenfield State Bank, Bakersfield, California, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	4
Letter to Wells Fargo Bank, San Francisco, California, approving the establishment of a branch in Pleasant Hill, California, in lieu of one previously approved to be established in Concord.	5

Cumulative voting in election of national bank directors

(Item No. 6). There had been distributed a memorandum from the Legal Division dated March 27, 1964, attaching a draft report to the Bureau of the Budget on a Treasury draft bill "To eliminate cumulative voting of shares of stock in the election of directors of national banking associations unless provided for in the articles of association." The

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proposed report would take the same position, expressed by the Board several times in testimony and reports on similar earlier proposals, that the principle underlying cumulative voting, namely, permitting substantial minority groups of shareholders to be represented on the board of directors of a bank, is a sound one.

The report was approved unanimously; a copy is attached as Item No. 6.

Question was raised whether it would be advisable to furnish a copy of the report to the designated representative of the Secretary of the Treasury in conformance with the spirit of the letter of March 3, 1964, from the Secretary of the Treasury to the three Federal bank supervisory agencies looking toward coordination of their policies. It was noted that within the past week copies of reports on three pending bills had been furnished, as a matter of information, to the designated representative of the Secretary and to representatives of the other two bank supervisory agencies. However, those were reports to Congressional committees handling introduced legislation, whereas the one on today's agenda was to be made to the Bureau of the Budget and was on a Treasury draft bill. The function of the Bureau in such a case was to obtain comments, inform the originating agency, and attempt to harmonize differing views.

During discussion comments were made by some of the Board members that it was desirable to give every evidence of a sincere desire to cooperate with the coordination program, and there was general agreement

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that the present matter might appropriately be handled by an informal inquiry of Treasury General Counsel Belin, the official who had been designated by the Secretary of the Treasury as liaison with the bank supervisory agencies, as to whether or not he wished to have a copy of the Board's report on the draft bill regarding cumulative voting.

Secretary's Note: A copy of the letter to the Budget Bureau was sent to Mr. Belin.

Comments on foreign operations applications. Pursuant to the discussion at the meeting on March 26, 1964, there had been distributed a revised draft letter to the Comptroller of the Currency in reply to a letter of February 26, 1964, from Mr. A. J. Faulstich, his Administrative Assistant. Mr. Faulstich's letter, which referred to two letters in which the Board invited comments by the Comptroller of the Currency on applications of a corporation operating under the Board's Regulation K and owned by a national bank for consent to acquire stock in two foreign companies, indicated that such comments were not forthcoming because the Comptroller did not have sufficient information on the proposals themselves or on the Board's policies and standards for consideration of such applications.

Governor Daane indicated that he had not had an opportunity to review the draft reply fully, and there was agreement that the matter would be deferred for consideration tomorrow. However, Governor Balderston, who did not expect to be present at tomorrow's meeting, suggested certain revisions of the draft. It was understood that these

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suggestions, and certain others that were made, would be reflected in a new draft.

Bank merger policy. Mr. Shay referred to an inter-agency committee on which he and Mr. Leavitt were serving as the Board's representatives, other members being representatives of the Department of Justice, the Treasury Department, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. The function of the committee was to attempt to resolve differences or establish better relationships between the work of the bank supervisory agencies in administering the Bank Merger Act of 1960 and the responsibilities of the Department of Justice in administering antitrust statutes. An objective analysis of past merger decisions by the supervisory agencies was contained in a research monograph prepared for the Board by Professor George R. Hall of the University of Virginia and Professor Charles F. Phillips, Jr., of Washington and Lee University. The monograph had been distributed with a memorandum dated March 20, 1964, from the Banking Markets Unit, which recommended that the monograph be given rather wide distribution and that the Board publish it in due course. Mr. Shay expressed the view that it would be useful to supply copies of the monograph to the members of the inter-agency committee.

During discussion it was agreed that the memorandum from the Banking Markets Unit would be docketed for tomorrow's meeting, at which time the Board could resolve the questions of distribution and publication.

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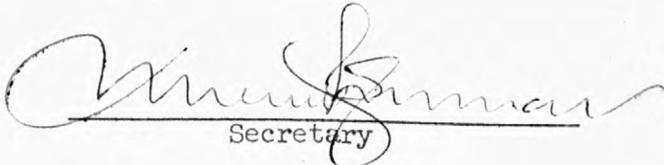
Governor Mills commented that the establishment of the inter-agency committee just mentioned, plus the machinery recently set up for coordination of bank supervisory policies, sharpened his apprehension that the practice of inter-agency consultations might spread to such a point as inevitably to result in a watering down of Board opinions. Sooner or later, as he saw it, one of the agencies consulted would object to a stand the Board proposed to take. If the Board would adhere to its opinion, well and good, but if it modified that opinion in the face of objection, the Congress or the public would have lost something of the independence of the Board's thinking.

Governor Mills also stated that if the monograph on merger actions should be considered at a time when he was not present, he wished to put himself on record as being strongly in favor of giving it wide distribution.

The meeting then adjourned.

Secretary's Notes: Governor Shepardson today approved on behalf of the Board a letter to the Federal Reserve Bank of Cleveland (attached Item No. 7) approving the designation of three employees as special assistant examiners.

Pursuant to the requirement of section 10 of the Federal Reserve Act, the Board's Annual Report for 1963 was transmitted today to the Speaker of the House of Representatives. A copy of the Report was also transmitted to the President of the Senate for the information of the Senate.

  
Secretary

**TELEGRAM**  
LEASED WIRE SERVICEItem No. 1  
3/31/64BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

March 30, 1964.

GALVIN - SAN FRANCISCO

In view of tidal waves resulting in emergency conditions in Crescent City, California, the Board of Governors approves the operation in temporary quarters of the Crescent City branches of United California Bank and Wells Fargo Bank.

(Signed) Merritt Sherman

SHERMAN

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

Item No. 2  
3/31/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 31, 1964.



Board of Directors,  
Five Point National  
Bank of Miami,  
Miami, Florida.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of Atlanta, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Five Point National Bank of Miami to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective with the first biweekly reserve computation period beginning after the date of this letter.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 3  
3/31/64



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 31, 1964.

Mr. Eliot J. Swan, President,  
Federal Reserve Bank of San Francisco,  
San Francisco, California 94120

Dear Mr. Swan:

This refers to your letter of March 13, 1964, regarding the penalties totaling approximately \$5,400 incurred by the Zions First National Bank, Salt Lake City, Utah, on an average daily deficiency of \$171,000 in its reserves during 28 of the 31 weekly computation periods from July 31, 1963, to February 26, 1964.

It is noted that (1) these deficiencies were discovered in the semiannual comparison of condition reports with deposit reports; (2) between July 31, 1963, and February 26, 1964, the bank inadvertently had included time certificates of deposit of a correspondent bank in the deduction item "Due from Banks" on its reports of deposits for reserve purposes; (3) the bank has taken steps to prevent incorrect reporting in the future; and (4) it is the opinion of your Bank that the improper classification was the result of a clerical error and the member bank would have maintained adequate reserves if the time certificates of deposit had been reported properly.

In the circumstances, and in view of your recommendation, the Board authorizes your Bank to waive the assessment of the penalties of approximately \$5,400 for the periods ended July 31, 1963, to February 26, 1964.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 4  
3/31/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



March 31, 1964.

Mr. Joseph W. Barr, Chairman,  
Federal Deposit Insurance Corporation,  
Washington, D. C. 20429

Dear Mr. Barr:

Reference is made to your letter of March 18, 1964, concerning the application of the Greenfield State Bank, Bakersfield, California, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

No corrective programs which the Board of Governors believes should be incorporated as conditions to the continuance of deposit insurance have been urged upon or agreed to by the bank.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 5  
3/31/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



March 31, 1964.

Board of Directors,  
Wells Fargo Bank,  
San Francisco, California.

Gentlemen:

On October 15, 1963, the Board of Governors of the Federal Reserve System approved the establishment of a branch by Wells Fargo Bank in the vicinity of the intersection of Willow Pass Road, Taylor and Pacheco Boulevards, Concord, California. Your letter of March 16, 1964, indicates that you now wish to change the location of this branch to the east side of Pacheco Boulevard, approximately one-half mile north of Willow Pass Road and Taylor Boulevard, Pleasant Hill, California.

The Board approves the establishment of this branch at the new location in lieu of that previously approved by the Board, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
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, D. C. 20551

Item No. 6  
3/31/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 31, 1964.



Mr. Phillip S. Hughes,  
Assistant Director  
for Legislative Reference,  
Bureau of the Budget,  
Washington, D. C. 20503

Dear Mr. Hughes:

This is in response to your request of March 12, 1964, for the views of the Board of Governors on a Treasury draft bill "To eliminate cumulative voting of shares of stock in the election of directors of national banking associations unless provided for in the articles of association."

Cumulative voting for directors of corporations, which is provided for in the Constitutions of a number of States and by statute in other States, is based on the principle that minority representation, or proportional representation, on boards of directors is desirable. Through cumulative voting, minority shareholders may be enabled to elect one or more directors, whereas in the absence of cumulative voting the majority shareholders could elect all the directors, so that a substantial minority which might not be in agreement with the policies and point of view of the majority could be prevented from presenting its views and otherwise participating in the direction of the corporation's affairs.

The provision regarding cumulative voting by shareholders of national banks has been a part of the Federal statutes for over thirty years, and while the Board has not had direct supervision of the operation of the statute, as has the Comptroller of the Currency, it is the Board's opinion that the principle underlying cumulative voting - namely, permitting substantial minority groups of shareholders to be represented on the board of directors - is a sound



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 7  
3/31/64



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 1, 1964.

Mr. H. W. Huning, Assistant Vice President,  
Federal Reserve Bank of Cleveland,  
Cleveland, Ohio. 44101

Dear Mr. Huning:

In accordance with the request contained in your letter of March 26, 1964, the Board approves the designation of Robert Groh as a special assistant examiner for the Federal Reserve Bank of Cleveland for the purpose of participating in examinations of State member banks.

The Board also approves the designation of the following employees as special assistant examiners for the Federal Reserve Bank of Cleveland for the purpose of participating in examinations of State member banks except those listed opposite their names:

Robert R. Puthoff - The Central Trust Company,  
Cincinnati, Ohio

Charles Beck - The Fifth Third Union Trust Company,  
Cincinnati, Ohio  
- The Central Trust Company,  
Cincinnati, Ohio

The authorizations heretofore given your bank to designate these individuals as special assistant examiners are hereby canceled.

Appropriate notations have been made on our records of the names to be deleted from the list of special assistant examiners.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.