

Minutes for April 8, 1964

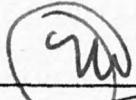
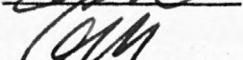
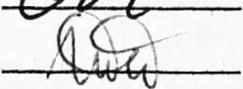
To: Members of the Board

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	<u></u>
Gov. Mills	<u></u>
Gov. Robertson	<u></u>
Gov. Balderston	<u></u>
Gov. Shepardson	<u></u>
Gov. Mitchell	<u></u>
Gov. Daane	<u></u>

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, April 8, 1964. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Noyes, Adviser to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research
and Statistics
Mr. Connell, Controller
Mr. Schwartz, Director, Division of Data
Processing
Mr. Shay, Assistant General Counsel
Mr. Daniels, Assistant Director, Division
of Bank Operations
Mr. Goodman, Assistant Director, Division
of Examinations
Mr. Spencer, General Assistant, Office of
the Secretary
Mr. Hricko, Senior Attorney, Legal Division
Mr. Young, Senior Attorney, Legal Division
Mr. Doyle, Attorney, Legal Division
Mr. Egertson, Supervisory Review Examiner,
Division of Examinations
Mr. McClintock, Supervisory Review Examiner,
Division of Examinations
Mr. Poundstone, Review Examiner, Division of
Examinations
Mr. Kakalec, Assistant to the Controller,
Office of the Controller

Discount rates. The establishment without change by the Federal Reserve Bank of Minneapolis on April 6, 1964, 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.

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Circulated or distributed 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 the Federal Reserve Bank of Philadelphia waiving the assessment of a penalty incurred by The First National Bank of Lock Haven, Lock Haven, Pennsylvania, because of a deficiency in its required reserves.	1
Letter to the Comptroller of the Currency requesting that a supplemental order for fiscal year 1964 be placed with the Bureau of Engraving and Printing for printing notes of the Federal Reserve Bank of Atlanta, 1950 Series.	2
Letter to Provident Tradesmens International Corporation, Philadelphia, Pennsylvania, granting specific consent to purchase stock of International Leasing Corporation, Limited, Sydney, Australia.	3
Letter to the Federal Reserve Bank of Minneapolis with regard to a question raised by a State member bank relative to assurances required to be given under the Bank Service Corporation Act.	4
Interpretation under section 5 of the Bank Service Corporation Act regarding assurances required to be given in situations involving State member banks. (The interpretation reflected certain changes in the language of the draft distributed to the Board, as agreed upon at today's meeting.)	5

In a discussion of Item No. 3, Governor Mills expressed views about a drift that he saw developing in the operations of Edge corporations. In the present case, he noted that the small investment in International Leasing Corporation, Limited, by Provident Tradesmens International Corporation, a subsidiary of Provident Tradesmens Bank

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and Trust Company, was merely a front to facilitate extension of credit by the bank. In his view, it was an illustration of a trend that was developing where corporations organized under the Edge Act were not being used for the purposes intended by the letter or spirit of that Act. He went on to point out that within the next few days there would come before the Board an application by Bankers International Financing Company, Inc., a subsidiary of Bankers Trust Company, New York City, for permission to increase its investment in a Colombian industrial financing corporation (Corporacion Financiera Nacional), which corporation was intended to bolster and strengthen new industries of the host country. In this connection, the Edge corporation also wanted to buy an interest in another Colombian organization that was engaged in various activities, the owner of which wished to diversify ownership of the company through sale of stock to Corporacion Financiera Nacional, in which Bankers International was purchasing additional stock. In Governor Mills' view, this would be another type of transaction that did not fall within the original intent of the Edge Act. He thought Edge corporations should confine their activities to the purposes for which they were chartered. The whole complexion of foreign financing activities of American banks was becoming increasingly confused, with such banks using Edge subsidiaries as fronts for their own activities in a manner that he did not regard as contemplated by the Edge Act.

Question was raised at the beginning of the discussion whether to publish in the Federal Reserve Bulletin and the Federal Register a

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Board interpretation relating to the question raised by Provident Tradesmens International Corporation as to whether its proposed investment would fall under the general consent provision of Regulation K, Corporations Engaged in Foreign Banking and Financing under the Federal Reserve Act. It was agreed, however, that there would be only limited interest in such an interpretation and that it should not be published.

Messrs. Daniels, Doyle, and Poundstone then withdrew from the meeting.

Report on competitive factors (Waynesboro-Blue Ridge Summit, Pennsylvania). There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The First National Bank of Blue Ridge Summit, Blue Ridge Summit, Pennsylvania, into First National Bank and Trust Company in Waynesboro, Waynesboro, Pennsylvania. The conclusion of the draft report stated that consummation of the proposed merger would eliminate the competition presently existing between the two banks but probably would not have adverse competitive effects on other banks in the area.

In discussion, Governor Robertson suggested omitting from the conclusion the word "competitive," the use of which he questioned in this context. He also felt that in the instant case it was important to note that while there were several large banks in the general area, the principal competition for the merging bank was from the two banks in Waynesboro. Those two banks had deposits of \$16 million and \$7 million, respectively. Under the proposed merger, the only other bank

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in this immediate competitive area, with \$3.7 million of deposits, was to be taken over by the \$16 million bank, which would leave a \$7 million institution and one of \$20 million. He raised this point on competition for consideration in the preparation of future reports as well, because it seemed important to distinguish primary from secondary competitive areas.

Following further discussion, changes in a table and a paragraph appearing in the body of the report were suggested to recognize the distinction between primary and broader competitive areas brought out by Governor Robertson's comments. The report was then approved unani- mously for transmittal to the Comptroller subject to the changes agreed upon at this meeting. The report, in the form approved, contained the following conclusion:

Consummation of the proposed merger of The First National Bank of Blue Ridge Summit into First National Bank and Trust Company in Waynesboro would eliminate the competition presently existing between the two banks, but probably would not have adverse effects on other banks in the area.

Report on competitive factors (Georgetown, Kentucky). There was approved unanimously for transmittal to the Comptroller of the Currency a report on the competitive factors involved in the proposed merger of The Georgetown National Bank, Georgetown, Kentucky, into First National Bank and Trust Company, Georgetown, Kentucky. The report contained the following conclusion:

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A majority of the outstanding stock of The Georgetown National Bank has recently been acquired by an individual, who, with his interests, also owns a majority of the stock of First National Bank and Trust Company, Georgetown. Prior to this acquisition a substantial amount of competition existed between Georgetown National and First National. So long as this common ownership continues, there is little potential for effective competition between them. However, a merger of the two banks would foreclose forever potential for competition.

The Farmers Bank & Trust Company, Georgetown, might well suffer adverse competitive effects since consummation of the merger would expose it to competition from a significantly larger institution. Despite the existing common ownership, the competitive effects of this proposal are clearly adverse.

Report on competitive factors (Lafayette-Dayton, Indiana).

There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed purchase of assets and assumption of liabilities of Bank of Dayton, Dayton, Indiana, by Lafayette National Bank, Lafayette, Indiana.

In discussion, a change was suggested in the phrasing of the conclusion. The report was then approved unanimously for transmittal to the Comptroller in a form containing the following conclusion:

The proposed purchase of assets and assumption of liabilities of Bank of Dayton by Lafayette National Bank would eliminate a nominal amount of existing competition and an alternative source of banking services; however, it does not appear that the proposal would have any significantly adverse effect on competition.

Mr. Hricko then withdrew from the meeting.

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Processing of bank merger applications. Under date of May 1, 1963, there was transmitted a letter from the Board to Chairman Fascell of the Legal and Monetary Affairs Subcommittee of the House Committee on Government Operations in response to his inquiry of April 1, 1963, concerning the operations of the Federal banking agencies and the Department of Justice in the processing of applications under the Bank Merger Act of 1960. A letter of March 12, 1964, from Chairman Fascell had now been received presenting five questions relating principally to Board activities under the Bank Merger Act. The letter indicated that the request for this additional information was prompted by the decision of the Supreme Court of the United States in the Philadelphia National Bank case (374 U. S. 321), decided June 17, 1963. A memorandum dated April 3, 1964, from the Legal Division submitting a draft reply had been distributed.

In discussion of the draft reply, agreement was expressed with a suggestion by Mr. Shay for the incorporation of additional language that would recognize the decision of the Supreme Court on April 6, 1964, in the case of the United States v. First National Bank and Trust Company of Lexington, Kentucky.

Attention then turned to a listing to be included with the letter that would show applications approved by the Comptroller of the Currency and the Federal Deposit Insurance Corporation under the Bank Merger Act subsequent to June 17, 1963, with respect to which the Board submitted definitely adverse reports on competitive factors. Included

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in this listing was a report dated June 17, 1963, to the Comptroller of the Currency on the proposed merger of Crocker-Anglo National Bank, San Francisco, with Citizens National Bank, Los Angeles, California. Mr. Shay indicated that he doubted whether the tone of the report was intended to be definitely adverse.

There followed a discussion at the conclusion of which it was agreed that this report should be eliminated from the listing, a review of the Board's minutes having been made in the interim which brought out that the report was not intended to be definitely adverse by the Board members who had approved its transmission to the Comptroller.

At the instance of Mr. Cardon, discussion then focused on the question whether the language of the reply to the first question in the Fascell letter, as agreed upon earlier, should perhaps be amended to spell out in more detail the relationship of the Supreme Court decision in the Philadelphia bank merger case, as well as the more recent Lexington decision, to the responsibilities of the Board in considering applications filed under the Bank Merger Act.

In the discussion of this point, members of the Board noted that the Board, in discharging its responsibility for merger cases, must look primarily to the provisions of the Bank Merger Act, including the various factors cited therein. At the same time, from the standpoint of consideration of competitive factors, it was suggested that the Supreme Court decisions should be borne in mind.

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It was agreed, in view of the several suggestions made, that the pertinent part of the proposed letter should be redrafted in light of the discussion and that the letter should be brought back to the Board for further consideration.

All members of the staff except Messrs. Sherman, Kenyon, Young (Adviser to the Board), Cardon, Fauver, Brill, Connell, Schwartz, Spencer, and Kakalec then withdrew from the meeting and Mrs. Projector, Economist, and Mrs. Weiss, Consultant, Division of Research and Statistics, entered the room.

Surveys of consumer finances. There had been distributed a memorandum dated April 3, 1964, from Mr. Brill, Director of the Division of Research and Statistics, with regard to an additional pair of surveys of consumer finances proposed in an attached letter from Chairman Heller of the Council of Economic Advisers to Chairman Martin. In brief, the Board was being urged by the Council to conduct another pair of surveys identical to the ones undertaken by the Board in 1963-1964, principally for the purpose of observing shifts in income-saving relationships that might occur as a result of the recent reduction in the Federal income tax.

The memorandum pointed out that a building up of a continuous time series of data through which spending and saving trends by income classes could be related to wealth position was attractive, and the Council's need for clues as to the specific effect of the tax cut on consumer spending was recognized by the Board's staff. However, there

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were certain analytic and administrative difficulties in undertaking another pair of surveys, the nature of some of them being as follows:

(1) It was not certain that repetition of the pair of surveys would clearly delineate the effect of the tax cut.

(2) The present survey program was not designed to collect accurate information on the variable that was the key to the Council's interest -- taxes paid.

(3) A major problem in the estimation of income-saving relationships from survey data had been the inadequacy of data for upper-income groups. The current survey program had therefore provided for heavy over-representation of high-income families holding a large share of the assets and presumably providing a large share of the saving. The proposed surveys, however, called for a sample with much less representation of the upper end of the distribution.

(4) To repeat the 1963-64 pair of surveys, the first of the 1964-65 pair would have to be undertaken in May or June of this year. At that time, it would not yet be known whether the reinterview phase of the 1963-64 program would be completely successful.

(5) Staff resources skilled in survey procedures were not large enough to absorb an additional load without endangering the program laid out for analyzing data collected in the reinterview survey this spring.

The memorandum stated that, weighing the analytic and administrative difficulties, the staff was reluctant to recommend a commitment to repeat the full survey program in 1964-65. Some of the problems would

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be lessened if such a program were postponed until 1965-66. It was recognized, on the other hand, that such a postponement would not meet the need for information on the immediate effect of the tax cut. If the Board concluded that it was appropriate to accede to the Council's request, it was suggested that the Board might wish to consider sponsoring the first phase of the program, that is, a balance sheet survey, this summer, without any firm commitment at this time to follow with a second phase (reinterview) next year. However, the Board's staff would be able to provide only minimal supervision of the Census Bureau's conduct of the balance sheet survey. It was noted that the Council was willing to have the data stored unedited and unprocessed until such time as the Board's staff was free to turn to them.

At the request of the Board, Mr. Brill commented in supplementation of the information and opinions presented in the memorandum. After reviewing the analytic and administrative considerations, he said that if these were the only factors involved, the staff would wind up slightly on the negative side with respect to the proposal. However, there was another consideration that should be weighed heavily: the general posture and image of the System in light of the challenge that had been thrown at it. It was not an open and shut case that nothing could be learned from a survey program such as proposed. Under those circumstances, to refrain from moving in the direction of trying to find out the effect of the tax cut would put the Board in the position of looking as though it was dragging its feet and failing to be cooperative. On balance, he

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came out with the feeling, in view of the possibility that something valuable would be derived from the program, that certain steps should be taken in the direction of cooperating with the Council, although limiting those steps to what was felt could reasonably be done. This would suggest a commitment to undertake a balance sheet survey, with which the Board's staff and the Census Bureau had had experience in 1963; any commitment to reinterview in 1965 would be withheld pending experience with the reinterview phase of the 1963-64 program. If the Board should accept this recommendation, it would have to be recognized that the staff schedule was such that the staff could not give the same kind of detailed supervision that it gave to the conduct of the balance sheet survey in 1963. As to the prospective cost of a balance sheet survey this year, the Census Bureau had not yet been able to furnish a firm estimate. The rough estimate was in the area of \$180,000, compared with payment to the Bureau of \$241,000 for the 1963 survey, the difference representing savings in developmental costs.

Following Mr. Brill's remarks, Mr. Young also commented on the proposed survey program. He stated that he was inclined to be sympathetic with the proposal. It was not so important that the data be analyzed immediately, but it was important to obtain information at this time and have it available for any light it might throw on the effect of a large tax cut on the relationships between disposable income, saving, and consumption. The proposed survey might go a long way toward answering

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such questions, and the results could be highly useful in fiscal policy administration, as well as in monetary policy formulation.

In the discussion that followed, Governor Mills said that, having studied the arguments against making the survey as presented in the memorandum and amplified by Mr. Brill, he felt that they were persuasive. The Board was limited in its staff facilities, and the survey would interfere with the culmination of work now under way. He thought the balance was against undertaking the project, which would involve the expenditure of substantial time and money without assurance of achieving the desired results.

Governor Robertson commented that the Board should not undertake any project that it could not do well; it was important not to be spread too thin. On the other hand, he could not imagine a better time to conduct a survey such as proposed, leaving the analysis of the data until later. In summary, he was sympathetic with undertaking the survey, and he would be willing to have the Board expend the necessary funds.

Governor Shepardson remarked that Governor Robertson had expressed his own thoughts. The circumstances provided by the tax cut would not recur frequently. Therefore, it seemed desirable to obtain whatever information was available, and from that standpoint it would be unfortunate if the Board did not give its support to this program. As to procedure, he inquired whether it would be feasible, in the interest

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of reducing cost and effort, to reinterview a second time those individuals who were participating in the 1963-64 survey program.

Comments by the staff in response to the question posed by Governor Shepardson brought out that technical considerations argued against this otherwise attractive possibility. Too great a drop-off in the response rate upon repeated reinterview would call into question the statistical validity of the survey data.

At the conclusion of further discussion, it was understood that the Board would agree to sponsor a balance sheet survey in 1964, on a basis whereby analysis of the data would be deferred to such extent as might be found necessary due to the limited availability of staff resources, and without commitment at this time to undertake the reinterview phase of the program in 1965. Governor Mills asked to be recorded in opposition, for reasons he had expressed earlier in the discussion.

It was understood that a firm cost estimate from the Census Bureau for the balance sheet survey would be brought back to the Board for approval.

All members of the staff except Messrs. Sherman, Kenyon, and Spencer then withdrew from the meeting.

Alaskan reconstruction (Items 6 and 7). Frederic Solomon, Director, Division of Examinations, was designated by the Board to serve on the Financial Institutions Task Force being appointed by the Federal Reconstruction and Development Commission for Alaska, of which

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Senator Clinton P. Anderson was Chairman. A copy of the letter sent to Chairman Anderson in this connection is attached as Item No. 6.

Secretary's Note: In response to a subsequent communication from Chairman Anderson asking about members of the Board's staff who might be designated to work with the Economic Stabilization Task Force, a letter was sent on April 17, 1964, suggesting Guy E. Noyes, Adviser to the Board, and Innis D. Harris, Coordinator of Defense Planning. A copy of the letter is attached as Item No. 7.

Book-entry procedure for Government securities (Item No. 8).

In June 1963 the Board requested the Federal Reserve Banks to consider and comment on the possibility of substituting a book-entry procedure for the procedure now being followed by the Banks in holding Government securities in safekeeping or as collateral. The Conference of Presidents of the Reserve Banks referred the request to its Committee on Fiscal Agency Operations, which in turn had been carrying forward discussions within the System and with the Treasury Department regarding possible advantages and disadvantages of the book-entry procedure. It was understood that the Treasury continued to have a question on only one significant aspect, relating to the effect on correspondent banking relationships.

Governor Balderston suggested at today's meeting that copies of a letter dated September 26, 1963, from Mr. Wayne, Chairman of the Committee on Fiscal Agency Operations, to the Fiscal Assistant Secretary of the Treasury submitting for consideration the proposal for adoption

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of a book-entry procedure be sent to the members of the Federal Advisory Council as background for discussion at the meeting of the Board and the Council on April 23, together with a summary statement of the concept of the proposed procedure.

Following discussion, it was the consensus that the views of the Council on the proposed book-entry procedure should be requested, as suggested by Governor Balderston. Governor Mills expressed reservations on the ground that this might be somewhat premature.

A copy of the letter sent to the members of the Federal Advisory Council on April 10, 1964, is attached as Item No. 8.

The meeting then adjourned.

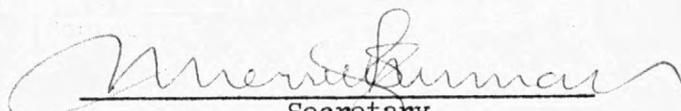
Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the following actions relating to the Board's staff:

Appointment

Bruce D. Shuter as Attorney, Legal Division, with basic annual salary at the rate of \$5,795, effective the date of entrance upon duty.

Salary increase

Nancy H. McCaslin, Editorial Clerk, Division of Research and Statistics, from \$6,460 to \$6,965 per annum, with a change in title to Editorial Assistant, effective April 12, 1964.


Secretary

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

Item No. 1
4/8/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 8, 1964.



Mr. Harry W. Roeder, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania. 19101

Dear Mr. Roeder:

This refers to your letter of March 26, 1964, regarding a penalty of \$342.18 incurred by The First National Bank of Lock Haven, Lock Haven, Pennsylvania, on an average daily deficiency in reserves of \$162,200 for the biweekly computation period ended March 18, 1964.

It is noted that the deficiency was the result of recent flood conditions and that the bank had not had a reserve deficiency since 1959.

In the circumstances, the Board authorizes your Bank to waive the assessment of the penalty of \$342.18 for the period ended March 18, 1964.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 2
4/8/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 8, 1964.

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

Sir:

This refers to the order for printing Federal Reserve notes during the fiscal year 1964, as transmitted in the Board's letter of June 28, 1963, and amended in its letter of October 7, 1963.

It is respectfully requested that you place a supplemental order for fiscal year 1964 with the Bureau of Engraving and Printing for printing notes of the Federal Reserve Bank of Atlanta, 1950 Series, as follows:

<u>Denomination</u>	<u>Number of Notes</u>	<u>Amount</u>
\$50	576,000	\$28,800,000

Respectfully,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 8, 1964.



Provident Tradesmens International Corporation,
Broad & Chestnut Streets,
Philadelphia, Pennsylvania.

Gentlemen:

Reference is made to your letters of February 27 and 28, 1964, and March 26, 1964, transmitted through the Federal Reserve Bank of Philadelphia, requesting an advisory opinion as to whether a proposed acquisition of 15 per cent of the ordinary voting shares of International Leasing Corporation, Limited, ("ILC"), Sydney, New South Wales, Australia, would be covered by the General Consent granted by Section 211.8 of Regulation K and, if not, requesting prior Specific Consent of the Board to such acquisition.

From the information furnished, it is understood that your Corporation is presently engaged in negotiations with respect to a proposed loan to International Leasing Corporation (VIC) Limited, ("VIC"), a wholly-owned subsidiary of ILC, for such amount as, when added to the aggregate price of the stock of ILC, will not exceed \$1,000,000. It is understood that the only asset of ILC is the ownership of stock of VIC and the only liabilities of ILC, other than to its shareholders for outstanding shares, would be liabilities incurred through the operation of VIC.

Section 211.8(a) of Regulation K grants general consent for any Corporation organized under section 25(a) of the Federal Reserve Act "to acquire . . . and hold the shares of corporations organized under foreign law if such acquisition (1) is incidental to an extension of credit by the Corporation to the corporation whose shares are acquired . . . or (3) is otherwise likely to further the development of United States foreign commerce . . .".

As the proposed credit extension is to be made to VIC and not ILC, the acquisition of shares of ILC would not come within clause (1) of Section 211.8(a). Moreover, while it would appear that the activities of VIC would be "likely to further the development of United States foreign commerce" and that shares of VIC could be acquired under clause (3) of Section 211.8(a), it is the Board's

Provident Tradesmens
International Corporation

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view that the proposal to acquire shares of ILC does not come within the provisions of clause (3) of Section 211.8(a). However, the Board grants Specific Consent, in accordance with your request and on the basis of information furnished, for your Corporation to purchase and hold 15 per cent of the ordinary shares of ILC at a cost not to exceed approximately US\$26,000, provided such stock is acquired within one year from the date of this letter.

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. 4
4/8/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 8, 1964.

Mr. R. K. Grobel,
Vice President,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota. 55440

Dear Mr. Grobel:

This refers to your letters of March 2 and 30, 1964, and their enclosures, concerning whether section 5 of the Bank Service Corporation Act (12 U.S.C. § 1865) and the Board's Regulation S require that assurances satisfactory to the Board be furnished, as specified in that section and section 219.2 of the Regulation, in the case of the performance of bank services for a State member bank by another State member bank.

This question, presented by Central Bank of Montana, Great Falls, Montana, has been made the subject of a Board interpretation which will be published in the Federal Reserve Bulletin and the Federal Register. A copy of the interpretation is enclosed.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure

TITLE 12 - BANKS AND BANKING

Item No. 5
4/8/64

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. S]

PART 219--BANK SERVICE ARRANGEMENTS

Assurances in Situations Involving State Member Banks

§ 219.103 Assurances required under Bank Service Corporation Act in situations involving State member banks.

(a) Under section 5 of the Bank Service Corporation Act (12 U.S.C. § 1865), no State member bank may cause to be performed, by contract or otherwise, any bank services for itself, whether on or off its premises, unless assurances satisfactory to the Board of Governors of the Federal Reserve System are furnished to the Board by both the bank and the party performing such services that the performance thereof will be subject to regulation and examination by the Board to the same extent as if such services were being performed by the bank itself on its own premises.

(b) In reply to a recent inquiry, the Board's view is that section 5 of the Act requires the furnishing of assurances, as described in that section, in the case of the performance of bank services for a State member bank by another State member bank.

(c) Neither the language of the Act nor the Board's Regulation S (12 CFR Part 219) contains any exception for situations of the kind in question. Section 219.2 contemplates that the assurances in such a situation be submitted in the form of a letter

(or separate letters) signed by duly authorized officers of both of the State member banks. Section 219.2 also provides that letters of assurances shall be addressed to the Board in care of the Federal Reserve Bank of the district in which the State member bank receiving performance of the bank services has its main office.

(Interprets or applies 12 U.S.C. 1865)

Dated at Washington, D. C., this 8th day of April, 1964.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 6
4/8/64

OFFICE OF THE VICE CHAIRMAN

April 8, 1964

The Hon. Clinton P. Anderson, Chairman,
The Federal Reconstruction and Development
Planning Commission for Alaska,
United States Senate,
Washington, D. C. 20510.

Dear Mr. Chairman:

In response to a request from Mr. Edward A. McDermott, Director of the Office of Emergency Planning, the Board has designated Mr. Frederic Solomon, Director of the Board's Division of Examinations, to serve as its representative on the Financial Institutions Task Force that is being appointed by your Commission.

Sincerely yours,

(Signed) C. C. Balderston

C. Canby Balderston,
Vice Chairman.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 7
4/8/64

OFFICE OF THE VICE CHAIRMAN

April 17, 1964.



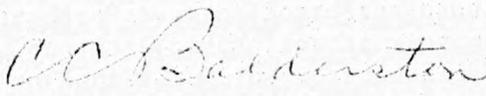
The Honorable Clinton P. Anderson,
Chairman,
The Federal Reconstruction and Development
Planning Commission for Alaska,
United States Senate,
Washington, D. C. 20510

Dear Mr. Chairman:

In your letter of April 11, 1964, you inquire as to the availability of additional members of the Board's staff who might assist on task forces that may be established to further the work of the Federal Reconstruction and Development Planning Commission for Alaska. You particularly ask about individuals to serve on the economic stabilization task force.

In addition to Mr. Frederic Solomon, who was suggested in my letter of April 8 to serve on the Financial Institutions Task Force, I would suggest the names of Mr. Guy E. Noyes, Adviser to the Board, and Mr. Innis D. Harris, Coordinator of Defense Planning, as individuals from the Board's staff to serve on the economic stabilization task work.

Sincerely yours,


C. Canby Balderston,
Vice Chairman.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 8
4/8/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 10, 1964.

(Letter to the Federal Advisory Council)

Dear Sir:

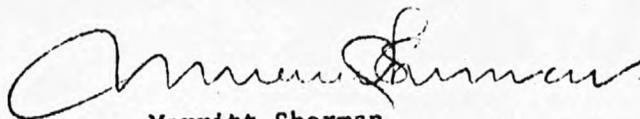
In June 1963 the Board of Governors requested the Federal Reserve Banks to consider and comment on the possibility of substituting a book-entry procedure for the procedure currently followed by the Reserve Banks in holding Government securities in safekeeping or as collateral. This request, which involved study of the essential features of an idea that had been advanced from time to time in the past, was prompted by the mysterious disappearance of some Government securities that had been held in safekeeping at one of the Reserve Banks.

The Conference of Presidents of the Federal Reserve Banks referred the Board's request to its Committee on Fiscal Agency Operations, which in turn carried forward discussions within the System and with Treasury officials regarding possible advantages and disadvantages of such a book-entry procedure. A copy of a letter dated September 26, 1963 from the Chairman of that Committee to the Fiscal Assistant Secretary of the Treasury is enclosed, together with a summary statement of the concept of the proposed procedure.

The Board would appreciate having each member of the Council review the enclosures with a view to being prepared to give the Board the benefit of any comments he may have regarding the proposal at the forthcoming meeting of the Council with the Board to be held on April 23. The Board would be particularly interested in comments on the possible impact that the adoption of such a procedure might have on commercial banking.

In view of the shortness of time between now and the April 23 meeting, copies of this letter and its enclosures are being sent directly to each member of the Council as well as to its Secretary.

Very truly yours,



Merritt Sherman,
Secretary.

Enclosures