

Minutes of the Board of Governors of the Federal Reserve System on Friday, April 10, 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
Miss Carmichael, 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. Brill, Director, Division of Research
and Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Koch, Associate Director, Division of
Research and Statistics
Mr. Partee, Adviser, Division of Research
and Statistics
Mr. Furth, Adviser, Division of International
Finance
Mr. Katz, Associate Adviser, Division of
International Finance
Mr. Axilrod, Chief, Government Finance Section,
Division of Research and Statistics
Mr. Eckert, Chief, Banking Section, Division
of Research and Statistics
Mr. Keir, Chief, Capital Markets Section,
Division of Research and Statistics
Mr. Baker, Economist, Division of International
Finance

Money market review. There were distributed a table summarizing monetary developments in the five-week period ending April 8, 1964, and a chart covering business loans and business inventories, 1954-1964.

Mr. Axilrod reported on interest rates and developments in the Government securities market, including reference to the Treasury cash balance. Mr. Eckert then discussed bank credit, business loans and

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inventories, the money supply, and bank reserves, after which Mr. Baker commented on the foreign exchange market.

Following discussion all members of the staff withdrew except Messrs. Sherman, Fauver, and Solomon, and Miss Carmichael, and the following entered the room:

Mr. Hexter, Assistant General Counsel
 Mr. Goodman, Assistant Director, Division of Examinations
 Mr. Sanders, Attorney, Legal Division
 Mr. McClintock, Supervisory Review Examiner, Division of Examinations
 Mr. Sundberg, Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of Cleveland, Richmond, Atlanta, Chicago, St. Louis, Kansas City, and Dallas on April 9, 1964, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

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 First National City Overseas Investment Corporation, New York, New York, granting consent to purchase shares of Credit Corporation of the Philippines, Manila, Philippines, and approving the purchase of shares of Credit Corporation of the Philippines in excess of 10 per cent of the corporation's paid-in capital.	1
Letter to the Bureau of the Budget reporting on proposed revisions of S. 2223 and H.R. 8499, identical bills to provide for the regulation of collective investment funds maintained by banks.	2

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Mr. Goodman then withdrew from the meeting.

Reports on competitive factors (San Francisco-San Bernardino, California, and Seattle-Endicott, Washington). There had been distributed to the Board drafts of reports to the Comptroller of the Currency on the competitive factors involved in (1) the proposed merger of The American National Bank of San Bernardino, San Bernardino, California, into The Bank of California, N.A., San Francisco, California, and (2) the proposed purchase of assets and assumption of liabilities of The Bank of Endicott, Endicott, Washington, by The National Bank of Commerce of Seattle, Seattle, Washington.

The reports were approved unanimously for transmittal to the Comptroller, the conclusions therein being stated as follows:

San Francisco

Consummation of the proposed merger of The Bank of California, N.A., and The American National Bank of San Bernardino would further the concentration of banking resources in a few large banks in California but would have little effect on the competitive situation in the service area of the resulting institution.

Seattle

The proposed purchase of assets and assumption of liabilities of The Bank of Endicott by The National Bank of Commerce of Seattle would have little effect on competition in the service area of National Bank. The participants are not now engaged in direct competition with one another. In Whitman County, competition would be increased with the entry of the State's second largest bank. The proposal would increase the trend toward further concentration of banking resources in Washington, where 5 of the State's 97 banks now control over 68 per cent of total bank deposits.

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Report on competitive factors (Callicoon-Narrowsburg, New York).

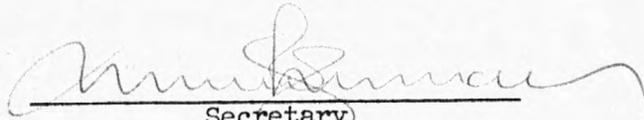
There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed consolidation of First National Bank in Callicoon, Callicoon, New York, and The First National Bank of Narrowsburg, Narrowsburg, New York.

Following discussion during which a change in the wording of the conclusion was suggested by Governor Robertson, the report was approved unanimously for transmittal to the Comptroller. The conclusion read as follows:

The proposed consolidation of First National Bank in Callicoon and The First National Bank of Narrowsburg would eliminate some competition; but the offices of these two banks are 14 miles apart and the amount of competition between them is not great.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum from the Legal Division, Governor Shepardson today approved on behalf of the Board the appointment of Susan Rowzie as Secretary in that Division, with basic annual salary at the rate of \$5,585, effective the date of entrance upon duty.


Secretary

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
4/10/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



April 10, 1964.

First National City Overseas
Investment Corporation,
399 Park Avenue,
New York 22, New York.

Gentlemen:

In accordance with the request contained in your letter of March 3, 1964, transmitted through the Federal Reserve Bank of New York, and on the basis of information furnished, the Board of Governors grants consent for your Corporation to purchase and hold up to 70,000 shares, par value Philippine Pesos 10 each, of Credit Corporation of the Philippines, Manila, Philippines, at a cost not to exceed US\$350,000, provided such stock is acquired within one year from the date of this letter.

The Board also approves the purchase and holding of shares of Credit Corporation of the Philippines within the terms of the above consent in excess of 10 per cent of your Corporation's paid-in capital.

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. 2
4/10/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 10, 1964.



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

Dear Mr. Hughes:

This is in reply to your letter of April 3, 1964, in reference to S. 2223 and H.R. 8499, identical bills referred to as the "Bank Collective Investment Fund Act of 1963". On March 26, 1964, the Board of Governors reported on these bills by letters to the Senate Banking and Currency Committee and the House Interstate and Foreign Commerce Committee. Under cover of letter of April 1, 1964, you were provided with a copy of the report.

As you will have noted from the report, the adverse position taken by the Board of Governors was based upon its belief that investor protection, a major purpose of the bills, can best be effected by a uniform statutory and regulatory plan administered by a single Governmental agency - the Securities and Exchange Commission - as to all investments of a similar nature.

The specific features of the bills which the Board considers objectionable are:

(1) The law itself would not require the same information to be presented to investors in banks' collective investment funds as is required for collective investment funds subject to the Securities Act of 1933 and the Investment Company Act of 1940.

(2) Two separate agencies would be authorized to issue regulations controlling the presentation of information to investors - the Comptroller of the Currency for collective investment funds of banks; the SEC for all other collective investment funds.

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(3) Four agencies would exercise enforcement powers affecting investor protection for similar investments. As to the collective investment funds subject to Federal securities laws, the SEC would have enforcement powers; as to the collective investment funds of banks, however, enforcement responsibility would be divided among the three Federal bank supervisory agencies.

None of the proposals set forth in your letter would eliminate entirely the foregoing features of the bills. Those proposals, and the extent to which each might correct shortcomings of the bills, are as follows:

1. To bring the bills' definitions of the terms "collective investment fund" and "managing agent" into agreement with the definitions of "common trust fund" and "managing agent" in the Comptroller of the Currency's Regulation 9.

This modification would appear to confine the coverage of the bills to funds that would enjoy the income tax exemption provided by section 584 of the Internal Revenue Code, as interpreted in Revenue Ruling 64-59. So modified, the bills would not exempt from the coverage of the Federal securities laws all collective investment funds which, theoretically, might be maintained by a bank. However, the practical effects, it is believed, would be much the same as under the bills in their present form. Assuming no change in the Internal Revenue Code and the regulations thereunder, there would be little likelihood that any bank would establish a collective investment fund which would not fall within the proposed definition. Accordingly, this proposed change in the bills probably would have no significant effect on the aspects that the Board considers undesirable.

2. To define "collective investment fund" to include only funds created through contributions made under provisions of the Self-Employed Individuals Tax Retirement Act of 1962 (Smathers-Keogh Act).

The effect of this proposal would be that, with the exception of Smathers-Keogh plans, bank funds that involve public offering of "securities" would be subject to the Federal securities laws and the jurisdiction of the SEC.

While, under the present law, the Securities Act of 1933 may be applicable to Smathers-Keogh funds, it is not likely that investors will compare those funds with other investment media. Smathers-Keogh funds

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would represent a unique investment medium, in that, within limits, contributions thereto would be deductible from income, for Federal tax purposes. Therefore, reduction in comparability of data, due to the fact that disclosure requirements for investor protection in regard to Smathers-Keogh plans might vary from those with respect to investment media subject to the Federal securities laws, is not considered significant.

The proposal would not, however, eliminate that feature of the pending bills which would result in three agencies exercising enforcement powers affecting investor protection requirements for similar investment media - namely, Smathers-Keogh funds. As noted in the Board's report, diffusion of enforcement power is as objectionable in the area of investor protection as division of regulatory power, for divergent interpretations and requirements could result in divergent presentations of information to the public. Furthermore, the Board believes that the SEC, after decades of experience with the Securities Act of 1933, is better equipped than is any bank supervisory agency to assure effective and economical protection of investors through requirements for disclosure of information regarding competing Smathers-Keogh funds.

3. To approach the problem of regulation of collective investment funds of banks in a manner similar to that utilized in S. 1642 with respect to bank stocks.

(The Board of Governors reported unfavorably to the Senate Banking Committee on section 13(e) of S. 1642, because of its belief that bank securities covered by that bill should be subject to the Federal securities laws and the jurisdiction of the SEC thereunder.)

Under this proposal all collective investment funds maintained by banks involving the public offering of "securities", within the purview of the Federal securities laws, would be subject to those laws. However, four different agencies would have both regulatory and enforcement powers as to investment media of essentially similar nature. In other words, regulatory power would be diffused to an even greater extent than would be the case under the bills in their present form.

To recapitulate, none of the three suggested changes in the pending bills would eliminate therefrom all the basic features which the Board considers objectionable. If the bills were revised to incorporate the proposals, severally or in conjunction, investments of a similar

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nature would be subject, if not to different statutory and/or regulatory requirements, at least to enforcement of such requirements by different agencies. Consequently, the Board would continue to recommend against enactment of S. 2223 and H.R. 8499 even if they were revised in accordance with the proposals.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.