Minutes for April 28, 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, April 28, 1964. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman 1/
Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Mitchell 1/
Mr. Daane

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. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research and Statistics
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel Administration
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Dembitz, Associate Adviser, Division of Research and Statistics
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Thompson, Assistant Director, Division of Examinations
Mr. Sprecher, Assistant Director, Division of Personnel Administration
Mr. Young, Senior Attorney, Legal Division
Mr. Doyle, Attorney, Legal Division
Mr. Poundstone, Review Examiner, Division of Examinations
Mr. Hart, Personnel Assistant, Division of Personnel Administration

1/ Withdrew from meeting at point indicated in minutes.

Discount rates. The establishment without change by the Federal Reserve Banks of Boston and Atlanta on April 27, 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.

Use of nominating committees and rotation of directors. In July 1963 the Board advised Chairman Patman of the House Banking and Currency Committee that his staff had been furnished, upon request, a complete set of the various documents used by the Federal Reserve Banks in the nomination and election of Class A and Class B directors. In this connection the Legal Division brought to the Board's attention the fact that in five Federal Reserve districts (Boston, New York, Philadelphia, Richmond, and Atlanta) member banks, through their various banking associations, had adopted the practice of appointing nominating advisory committees that selected candidates to be recommended to all member banks participating in a particular election. In four of the five districts the nominating committee held its meetings at the Reserve Bank and was provided with secretarial and administrative assistance. At one Bank the Secretary of the Bank acted as secretary for the committee, and letters from the committee to member banks were written on Reserve Bank stationery and signed by a Reserve Bank official. Three of the Banks paid the transportation and possibly other expenses of the members of the nominating committee. At one Bank (Boston) the President was invited to participate in the nominating committee's discussions concerning the recommendation

of candidates. At the conclusion of the Board's consideration of the matter, on July 17, 1963, the Legal Division was requested to review the matter further and make any recommendations that might seem appropriate.

In a memorandum from the Legal Division dated April 17, 1964, which had been distributed, it was pointed out that there was nothing in the law or the Board's instructions that would prohibit a practice under which names of candidates were recommended to the voting member banks by a nonstatutory nominating advisory committee. As a matter of policy, it was possible that the nominating committee practice might have certain advantages. It might serve to facilitate the selection of qualified individuals and provide a more satisfactory distribution of representation among different geographical areas within a Reserve district, with a greater degree of rotation of directors. To the extent that such advantages might exist, it would seem appropriate for the Reserve Banks to cooperate with such committees. The absorption of reasonable expenses incident to meetings of such a committee at the Reserve Bank would appear warranted. There would likewise seem to be no objection to Bank officers meeting with such committees to inform them of the legal requirements governing the conduct of elections and details of procedure prescribed by the Board's instructions.

In two respects, however, participation by a Reserve Bank might be of questionable propriety. First, active participation by officials

of the Reserve Bank in meetings of the committee at which names of possible candidates were considered would not appear to be in accordance with the general intent of the statute. Second, it would not seem appropriate for communications from the nominating committee to member banks to be written on stationery bearing the Reserve Bank letterhead and signed by a Bank official, unless such communications made it clear that the Bank was merely assisting the committee and was not expressing any view as to the candidates recommended by the committee.

Should the Board concur in these views, it was suggested that a letter might be sent to the Federal Reserve Banks regarding this matter, both for the guidance of the Reserve Banks in districts where the nominating committee practice was in effect and for the information of other Reserve Banks in the event member banks in their districts should at some time wish to adopt a similar practice. A draft of letter was submitted with the memorandum.

In discussion Governor Balderston said he felt that the proposed letter probably was acceptable as it stood. He added, however, that it had been his impression that some of the outstanding instances of long-continued service by directors (lack of rotation) were in districts where the nominating committee procedure was not in effect. His question, therefore, was whether the letter should not lean in the direction of encouraging the use of such committees.

Governor Robertson then suggested that the sending of the proposed letter be used as an opportunity to reiterate the Board's view favoring rotation of service of directors.

Governor Mitchell said that while he would have no particular objection to the use of nominating advisory committees being continued, he felt that the proposed letter went too much into detail, as for example with respect to the use of stationery, and that it would leave a poor impression with persons outside the System who might chance to read it. He proposed certain deletions from the draft letter dealing with detailed matters.

Governor Daane expressed general agreement with Governor Mitchell and suggested further deletions.

Governor Mills noted, on the other hand, that the proposed letter would be transmitted to the Reserve Banks unsolicited by them. Therefore, if such a letter were sent, perhaps it should contain a rather complete exposition of the Board's thinking on the subject. He found interesting and rather persuasive Governor Balderston's observation about cases of long service of directors predominating in districts where the practice of using nominating advisory committees was not followed. On the other side, it could be argued that in certain circumstances the use of such committees might tend to perpetuate directors in office.

In further discussion it was suggested that the staff might attempt to draft for the Board's consideration a letter that would be

somewhat more direct. During this discussion Mr. Hackley noted that perhaps the Board would prefer not to send any letter on the subject. The draft had been prepared as a result of the study by the Legal Division of the points raised at the Board meeting on July 17, 1963, for possible use in the event the Board should decide that it would like to inform the Reserve Banks of its thinking. It might be, however, that the Board would conclude that the sending of the unsolicited letter with respect to nonstatutory committees was unnecessary and might be misconstrued.

In discussion of this point Governor Balderston suggested that if any letter was sent it should go to the Chairmen of the Reserve Banks rather than to the Presidents. He also felt that some changes might be made in the draft letter to avoid a possible impression of criticism of the use of nominating committees in the five districts where they were utilized. As he had said earlier, some of the outstanding cases of long-continued service of directors existed in districts where the nominating committee practice was not followed. While Reserve Banks should refrain from getting in a position of seeming to guide the choice of director candidates, he felt that the use of nominating committees should not be discouraged if it worked in the direction of rotation of directors.

Governor Mitchell commented that he did not regard the use of the nominating committees as an important matter per se. However, the

principle of rotation of directors was important, and according to Governor Balderston the use of the nominating committees worked in that direction.

Governor Robertson commented that he had two things in mind. First, he wanted to encourage the rotation of directors. Second, Reserve Bank officials should not seem to dictate the selection of candidates for election as directors. The proposed letter went to the second point, but it appeared to him that both points could be dealt with in the same letter.

After further discussion along these lines, Chairman Martin proposed that a revised draft of letter be prepared in the light of the suggestions that had been made, and it was understood that this would be done.

Mr. Young (Legal) then withdrew from the meeting.

Absorption of exchange (Item No. 1). In a memorandum dated April 21, 1964, which had been distributed, Mr. Hackley pointed out that the question of absorption of exchange as payment of interest under Regulation Q, Payment of Interest on Deposits, had been the subject of consideration by the Board for more than 30 years, that is, since shortly after enactment of the Banking Act of 1933, which prohibited payment by member banks of interest on demand deposits "directly or indirectly, by any device whatsoever." For more than 25 years (since 1937) it had been a point of conflict between the Board and the Federal Deposit Insurance Corporation. A brief history of the matter was set forth in a memorandum attached to Mr. Hackley's principal memorandum.

A disturbing aspect of the controversy was the fact that member banks, prohibited by the Board from absorbing exchange charges, had been placed at a competitive disadvantage vis-a-vis nonmember insured banks, which were permitted by the Federal Deposit Insurance Corporation to absorb such charges. Mr. James C. Bolton, Chairman of the Board of Rapides Bank and Trust Company, Alexandria, Louisiana, had written a number of letters to the Board about the inequity of the situation. On July 1, 1963, the Board informed Mr. Bolton that its Legal Division would look into the possibility of an amendment to Regulation Q that "would permit equal competition among banks in a given area" in connection with a comprehensive study of the Regulation.

In a memorandum dated September 27, 1963, the Legal Division recommended a complete revision of Regulation Q that would have included, among other changes, an express reversal of the Board's position regarding absorption of exchange. The question was subsequently considered by the Board, but no decision was reached. (A new memorandum regarding possible changes in Regulation Q, apart from the exchange absorption problem, was currently being prepared for the Board's consideration.)

The specific suggestion made by Mr. Bolton that the Board permit absorption of exchange in specified areas where necessary to enable member banks to compete with nonmember banks was not regarded by the staff as either practicable or in accordance with the intent of the law.

Leaving aside the unlikely possibility of resolution of the problem through Congressional action, the memorandum suggested that there appeared to be only three principal possibilities. The first would be continuance of the present situation with the hope that despite the present competitive imbalance between member and nonmember banks the charging of exchange by nonpar banks would gradually diminish and the problem of exchange absorption therefore might eventually disappear. The second would be a reversal of the Board's position, thus permitting member banks to absorb exchange and thereby compete on an equal basis with nonmember insured banks. The third would be a reversal of the position of the Federal Deposit Insurance Corporation, with the result that nonmember insured banks, like member banks, would be prohibited from absorbing exchange.

After discussing the pros and cons of each of the three alternatives, the memorandum expressed the opinion that the present situation, involving enforcement difficulties and obvious competitive inequity, should not be allowed to continue. In the absence of specific legislation on the subject, the only satisfactory solution appeared to lie in a reversal of position by either the Board or the Federal Deposit Insurance Corporation. It was recommended that the Board send a letter to the Chairman of the Corporation that would briefly review the matter, enclose the historical memorandum, and urge that the Corporation and the Board adopt amendments to their respective regulations, along lines

suggested in the memorandum, to the effect that absorption of exchange in excess of $5 a month for any depositor would be regarded as a payment of interest by both member and nonmember insured banks. A tentative draft of such a letter was submitted for the Board's consideration.

The memorandum concluded with the comment that if the Corporation should reject the suggestion the Board might then wish to give further consideration to the desirability of reversing its own position or of bringing the matter to the attention of the Congress with a request for legislation.

Following a review by Mr. Hackley of the contents of his memorandum, there was a general discussion during which Governor Mitchell said that although he disliked delay, he found himself today in the position of advocating that the Board proceed cautiously. He believed that the Board was making some headway on the exchange absorption problem, having finally convinced the Federal Advisory Council and the American Bankers Association that it meant business. He would hope there was some way of continuing to convince them that the Board meant business and that they should work harder at the problem, which was one that he regarded as primarily an industry rather than a regulatory problem. As far as the new Chairman of the Federal Deposit Insurance Corporation was concerned, Governor Mitchell believed that Mr. Barr ought to have a chance to get settled in his position. He had wondered, Governor Mitchell added, whether it might not be possible to get

leadership on the exchange absorption problem in the Ninth District from the large bank holding companies, whose subsidiaries included both par and nonpar banks; he wondered whether some form of moral suasion might be used.

There ensued a discussion of remarks made informally by Chairman Barr at a recent luncheon with members of the Board which indicated that he probably would not want to reach a conclusion on the subject of the Corporation's position on exchange absorption for a matter of several months.

Governor Daane said that in the circumstances he was not sure about the advisability of sending the proposed letter. However, he saw no objection to further informal conversations with Chairman Barr, in order to assure that the subject was borne in mind and that it would be given as thorough and objective a review as possible.

Governor Robertson urged taking advantage of the momentum that had been built up, as indicated by the reports of recent discussions of leaders of the American Bankers Association and the Association of Reserve City Bankers. It would be a shame, he thought, if the Board now sat back. Representatives of the two bankers' associations reportedly were endeavoring to meet with Chairman Barr, and the Board should put something in Chairman Barr's hands before such time. He saw nothing in the proposed letter that could be regarded as starting or continuing a "cold war." It would merely put certain information in front of Chairman Barr; then if he

should conclude against doing anything at this time, that would be his decision. Should the Board and the Federal Deposit Insurance Corporation eventually arrive at the same position, Governor Robertson felt that it would be almost mandatory for the Comptroller of the Currency to go along. If the Board sent the letter, this would not be with the expectation that anything necessarily would be done by the Corporation immediately, but at least something would be on the table for everyone to see and study.

Governor Mills said that he rather leaned toward the thought of marking time, especially since Chairman Barr had indicated informally to the Board that he did not want to make any commitment for the time being. If, in the face of that indication, the letter was sent, Mr. Barr might have reason to take offense. Perhaps as an alternative there could be further informal conversations to keep the whole subject alive. Governor Mills expressed skepticism that the bankers' associations would do anything very forceful in the last analysis, in the face of opposition such as that displayed by independent bankers in the Ninth District.

Chairman Martin then suggested that perhaps the best way to proceed would be for him to talk with Chairman Barr and ask the latter how he would feel about the Board's sending him a letter along the lines of the draft that had been prepared. Chairman Martin said he thought the point had merit that the Board, having stirred up the subject with the Federal Advisory Council, would not want to appear to be dragging its feet.

In further discussion Governor Mitchell suggested that the bankers' associations should address their efforts primarily to working through commercial banking channels with a view to curtailing exchange absorption and nonpar banking. Governor Daane expressed the view that there was no momentum in the Ninth District toward a change in the present situation, and Governor Mitchell again referred to the possibility that the large bank holding companies might exert leadership.

Governor Balderston commented that after many years the Board appeared to have succeeded in getting the banking industry stirred up, and he hoped that the interest would not diminish. He felt that it might be unfortunate simply to send the proposed letter to Chairman Barr. After an informal discussion, however, Mr. Barr might be handed the historical memorandum on the subject, and also the letter if he indicated a desire to have it.

Governor Shepardson agreed with this approach. He inquired about the suggestion in the proposed letter for increasing from $2 to $5 the exchange charges that could be absorbed for any one depositor in any one month, and in the ensuing discussion it was indicated that this reflected a suggestion that had been incorporated in the proposed letter in the thought of affording some possible basis for compromise without departing from the principle of prohibiting absorption of exchange in substantial amounts. Such a modification of the $2 rule would reduce the volume of required charge-backs, about which some banks had complained.

At the conclusion of the discussion, it was understood that Chairman Martin would talk further with Chairman Barr along the lines that had been suggested and that in the light of such discussion he would determine whether it would seem appropriate to send the proposed letter to Mr. Barr.

Secretary's Note: On May 13, 1964, the Secretary was informed by Chairman Martin's office that the Chairman had talked further with Chairman Barr and that in the light of such discussion the proposed letter was being sent to Mr. Barr. A copy of the letter, as sent, is attached as Item No. 1.

Messrs. Noyes, Brill, and Dembitz then withdrew and Miss Hart, Senior Attorney, and Mr. Sanders, Attorney, Legal Division, entered the room.

Distribution of excess earnings. In a memorandum dated April 23, 1964, which had been distributed, the Division of Personnel Administration noted that the Subcommittee on Personnel of the Conference of Presidents of the Federal Reserve Banks, in its study of the Retirement System of the Federal Reserve Banks and related fringe benefits, had recommended that the Retirement System provide for the distribution of so-called excess earnings to active members, pensioners and their beneficiaries, and the employing Banks by the allocation of such earnings on a pro rata basis after the interest rate was increased to 3-1/2 per cent and the Reserve for Income Equalization and the Reserve Against Investments had reached prescribed maximums. Such distribution would be made to the Retirement Reserve Account, the Annuity Accumulation Account, and the Pension Accumulation Account.

The Board was subsequently advised that when the Conference of Presidents on January 28, 1964, approved this particular recommendation of the Subcommittee on Personnel (among other recommendations that it also approved) the Conference recognized that it would be necessary to develop specific procedures governing the distribution.

After reviewing the several proposals approved by the Conference of Presidents, the Board on April 7, 1964, took the position, on distribution of excess earnings, that it was not prepared "at this time" to approve a proposal for such distribution. The Conference of Presidents was so advised.

Counsel for the Retirement System then undertook to prepare drafts of changes in the Rules and Regulations of the Retirement System that would be required by those Subcommittee recommendations that the Board had indicated it was prepared to approve provided they were also approved by the Board of Trustees of the Retirement System. Counsel planned to submit drafts of such changes to the Internal Revenue Service to obtain a reaction and believed it would be preferable to submit an entire package of changes at one time. Accordingly, President Deming, as Chairman of the Board of Trustees of the Retirement System, asked that the Board indicate whether it would be willing to consider a proposal for distribution of excess earnings if such were resubmitted accompanied by specific procedures governing distribution. If so, the Retirement System

and its Counsel would prepare the necessary recommendation for consideration by the Conference of Presidents and transmission to the Board.

The memorandum from the Personnel Division presented the question whether the Board wished to indicate if it was prepared at this time to consider a specific proposal for distribution of excess earnings.

At this meeting Mr. Johnson noted that he had distributed certain figures on the reserve accounts and earnings of the Retirement System. He discussed these in presenting the question raised in the memorandum from the Personnel Division. After outlining procedures that might be followed if the Board indicated that it was not prepared to consider a proposal for distribution of excess earnings, Mr. Johnson observed that certain fundamental questions were involved in such a proposal. First, there was the question whether or not excess earnings of a retirement system such as the Retirement System of the Federal Reserve Banks should be distributed. On the other hand, there was a feeling among many Reserve Bank employees that their money had helped to amass the excess earnings and that therefore they should get back some proportion of such earnings.

In reply to an inquiry by the Chairman, Mr. Johnson verified that it was not contemplated by Counsel for the Retirement System that any approach to the Internal Revenue Service on the question of distribution of excess earnings would be made at this juncture. Chairman Martin expressed the view that it was important that no approach, even informal, be made until such time as the Board, if it decided to consider a

proposal for the distribution of excess earnings, had in fact considered the proposal and had advised of the position that it would be prepared to take.

Governor Robertson suggested that the Board might want to take a position today that excess earnings should be used for the purpose of reducing the contributions of the Federal Reserve Banks to the Retirement System.

Governor Mills, however, indicated that he would be inclined to feel that the Board should ask what formula was proposed by the Conference of Presidents and the Board of Trustees in order to ascertain exactly what would be involved and what the mathematics of the proposal would be.

After consideration of these alternatives, Governors Mitchell and Daane indicated that they would like to study the matter further before the Board committed itself. Accordingly, it was agreed that the question presented in the memorandum from the Personnel Division would be held over for further discussion at another meeting of the Board.

Messrs. Young (Adviser to the Board), Johnson, Sprecher, and Hart then withdrew from the meeting.

Question concerning notes and debentures (Item No. 2). In letters dated February 13 and February 28, 1964, Mr. Herbert F. Sturdy, an attorney of Los Angeles, California, requested an exception to the ruling of the Board, published in the January 1964 Federal Reserve Bulletin, to the effect that notes and debentures of banks may not be regarded as

"capital", "capital stock", or "surplus" for purposes of certain provisions of the Federal Reserve Act. He urged that an exception be made in the case of notes and debentures that are subordinated to claims of depositors and other creditors and may not be paid at maturity unless they are replaced through the sale of stock, through subsequent retained earnings, or by the issuance of similarly limited notes or debentures. It appeared that Mr. Sturdy was particularly concerned with such an exception for purposes of (a) the calculation of limitations on a bank's loans to one borrower, and (b) approval of investments in bank premises in excess of capital stock, under section 24A of the Federal Reserve Act.

At its meeting on April 9, 1964, the Board decided to follow the so-called "Dillon procedure" in this instance and therefore authorized sending a draft of proposed reply to Mr. Sturdy to the designated representatives of the Secretary of the Treasury and of the other two Federal bank supervisory agencies for any comments they might care to make.

The proposed reply would point out that lending limitations were, in the main, matters of State or Federal law, administered by the State authorities in the case of State banks and by the Comptroller of the Currency in the case of national banks. It would also point out that even though notes or debentures would not be regarded as capital stock for purposes of the limitations on investments in bank premises, the Board might take them into consideration in determining whether to permit such investments in excess of the amount of a State member bank's capital stock.

In a memorandum dated April 27, 1964, which had been distributed, the Legal Division advised the Board of the comments that had been received on the draft reply and expressed the view that they afforded no reason why the reply should not be sent to Mr. Sturdy.

Following discussion, during which reference was made particularly to the comments received from the Office of the Comptroller of the Currency, agreement was expressed that the proposed letter should now be sent to Mr. Sturdy.

Secretary's Note: At the request of Governor Daane, who indicated that he would like to study the proposed letter somewhat further, the letter was temporarily withheld from the mail. Following further discussion at the meeting on April 29, 1964, however, the letter was sent. A copy is attached as Item No. 2.

Proposed special coin shipment (Item No. 3). Governor Daane reported on conversations that he and Mr. Farrell had had with representatives of the Treasury and the Bureau of the Mint concerning a proposed special shipment of coin to a nonmember bank in Las Vegas, Nevada. The incident had come to light through a telephone call from President Swan of the Federal Reserve Bank of San Francisco to Mr. Farrell. It appeared that the Mint had informed the Vice President in charge of the Los Angeles Branch that a shipment of $89,000 of nickels was being made to the Branch on April 28 and that in addition the shipment would include a further $30,000 in nickels to be sent to the nonmember bank in Las Vegas through a national bank in Los Angeles. President Swan, aware of the general coin shortage in Las

Vegas and the recent visit of a member bank officer to the Los Angeles Branch to discuss the situation, had expressed his concern to Mr. Farrell. He felt strongly that any special shipment of coin to the nonmember bank would be undesirable and that if such a shipment nevertheless was to be made, it should be made direct from the Mint rather than through the Los Angeles Branch.

Governor Daane went on to say that as a result of the conversations with Treasury representatives it had now been agreed that the $30,000 of additional nickels to be sent to the Los Angeles Branch would be made available generally throughout the Los Angeles area, including southern Nevada. At Governor Daane's request, Mr. Farrell then distributed copies of a draft of letter that might be sent to the Treasury or the Mint expressing the view that in present circumstances any special shipments of coin to commercial banks would be undesirable because they would raise questions of equity and would create pressures in other areas. If, however, there were circumstances that the Treasury felt warranted special shipments, the Board would hope that in such cases arrangements would be made to have the shipments go directly from the Mint to the commercial banks concerned and avoid involving the Federal Reserve Banks in any way.

After discussion it was agreed that the proposed letter should be sent to the Secretary of the Treasury over the signature of Chairman Martin. A copy of the letter, as sent, is attached as Item No. 3. Copies of the letter were sent to the Presidents of the Federal Reserve Banks for their information.

Bermuda coin shortage. In a memorandum dated April 27, 1964, which had been distributed, Mr. Farrell referred to his report to the Board on April 24 concerning a telephone inquiry from a State Department representative about the possibility of obtaining $25,000 in American coin for use in Bermuda. A cable had been received by the State Department from the American Consulate in Bermuda stating that American coins were in wide usage there, that there was a shortage of such coins, and that intercession with the Federal Reserve would be appreciated. In his report to the Board on April 24 Mr. Farrell indicated that Vice President Harris of the Federal Reserve Bank of New York had informed him that (1) through a correspondent relationship, Chase Manhattan Bank of New York had been sending to the Bank of Bermuda about $10,000 in American coin each month, but it had been forced to discontinue those shipments in view of the severe rationing program forced upon the New York Reserve Bank by the over-all coin shortage; (2) the coin supply was so limited in the Second District that the New York Reserve Bank had been forced to cut its allotment to $200 per bank in distributing its last shipment of nickels; (3) any special shipment of coins to Bermuda would probably have to go through a New York correspondent bank, and the New York correspondent would be justifiably disturbed by having to send to Bermuda coins it could not get for itself; (4) under existing circumstances the New York Reserve Bank would be reluctant to see a special shipment of coins diverted to Bermuda through one of its member banks.

Mr. Farrell's memorandum related that as the result of the Board's discussion of the matter on April 24 he had inquired of five Reserve Banks, other than New York, whether any coin could be spared for Bermuda. In each case the response was that the Reserve Bank had no surplus coin at this time, that it had been rationing all coin for months, and that it would not like to see a special shipment to Bermuda.

Mr. Farrell's memorandum also related that subsequent to the Board meeting the State Department representative had called again and pointed out that there was a large contingent of American military forces in Bermuda that might be inconvenienced by a shortage of American coin. Upon inquiry of the Treasury, Mr. Farrell was advised that while the Treasury was arranging for special coin shipments to military finance officers in various parts of the world, there had been no request for such an arrangement in Bermuda. If there was need for such an arrangement, the request should come to the Treasury through the Director of Accounts and Finance of the Air Force.

The memorandum further stated that in a later telephone conversation with Vice President Harris, he suggested that if the Bank of Bermuda would work through its New York correspondents in the normal way the New York Reserve Bank might be able to increase somewhat its allotments to the correspondent banks concerned to permit them to help the Bank of Bermuda. Such a procedure would be in line with the Reserve Bank's policy of adjusting allotments wherever possible to meet seasonal needs.

Mr. Farrell suggested that in the circumstances it would seem appropriate for him to inform the State Department representative (1) of the Treasury's suggestion with respect to the procedure for meeting needs of military personnel in Bermuda; (2) of the New York Reserve Bank's suggestion with respect to the possibility of some help through regular correspondent bank relationships; and (3) that the Federal Reserve was unable to comply with the request for a special shipment of $25,000 of coins.

General agreement was indicated by the members of the Board with the tenor of the advice proposed to be given by Mr. Farrell to the State Department.

Governor Mills commented that he agreed that the New York correspondents of the Bank of Bermuda should be the ones to render service to the Bermuda institution. Very possibly, he thought, the Federal Reserve Bank of New York, in consideration of the situation in Bermuda, could allow some latitude in the supplying of coins for this purpose to the correspondent banks. Within reason, some assistance should be provided; the New York Reserve Bank should be reasonably positive about the matter. If correspondent banks of the Bank of Bermuda approached the Reserve Bank and presented a request that was within reason, some effort should be made to supply coins to meet the deficiency in Bermuda.

Mr. Farrell stated that the New York Reserve Bank would like to work this out with the correspondent banks.

At the conclusion of the discussion, it was understood that Mr. Farrell's advice to the State Department would be along the lines suggested in his memorandum.

Chairman Martin withdrew from the meeting at this point.

Reports on H. R. 10668 and S. 2561 (Items 4 and 5). Pursuant to the understanding at the meeting on April 27, 1964, there had been distributed a revised draft of letter to Chairman Patman of the House Banking and Currency Committee in response to his request for comment on bill H. R. 10668. The principal purpose of the bill was to bring within the scope of the Bank Holding Company Act of 1956 testamentary trusts and charitable and educational foundations controlling bank assets of $100 million or more. The bill would also, by amending the Bank Merger Act, require the Federal bank supervisory agencies to take into consideration the possible inconsistency of a proposed merger transaction with the purposes and objectives of the Bank Holding Company Act when they passed upon an application for approval of such a transaction.

A similar letter would be sent to Chairman Robertson of the Senate Banking and Currency Committee in response to his request for comments on the companion bill S. 2561.

After certain minor changes had been agreed upon in the interest of clarification, unanimous approval was given to a letter to Chairman Patman in the form attached as Item No. 4. Attached as Item No. 5 is a copy of the similar letter sent to Chairman Robertson.

Governor Mitchell withdrew from the meeting at this point.

Proposed ruling of Comptroller (Item No. 6). There had been distributed a memorandum from the Legal Division dated April 24, 1964, submitting for the Board's consideration a draft of reply to a letter received by Mr. Hackley under date of April 16, 1964, from Mr. A. J. Faulstich, Administrative Assistant to the Comptroller of the Currency. With his letter Mr. Faulstich had enclosed for comment a proposed ruling by the Comptroller that would permit national banks to acquire and hold directly stock interests in foreign banks.

The proposed reply would take the position that there was no legal basis for the proposed ruling. It would also indicate, however, that the Board would favor an amendment to section 25 of the Federal Reserve Act under which the Board would have authority to permit national banks (and also State member banks) to acquire and hold directly controlling stock interests in foreign banks, subject to certain limitations.

The Legal Division's memorandum noted that in a letter of May 13, 1963, to the Bureau of the Budget the Board had recommended an amendment to section 25 of the kind in question in commenting on a proposed amendment to section 23A that was of interest to Chase Manhattan Bank, New York, New York, in connection with some of its indirect South American holdings. The memorandum also noted that in a letter to Chairman Martin dated April 12, 1963, the President of First National City Bank of New York had suggested an amendment to the law that would made it permissible for national banks to own directly the stock of foreign banks.

In discussion, Governor Mills supported the position taken in the draft letter regarding the proposed ruling of the Comptroller, but indicated that he continued to have some reservations about the advisability of legislation that would permit member banks to own stock directly in foreign banks. He had an undercurrent of feeling that the privilege could be abused and that member banks might acquire stock and operate the foreign banks in ways that would raise problems in the future. However, he presumed that any such legislation would include a saving clause that would make the acquisition and holding of stock of foreign banks subject to regulations of the Board. If legislation were passed, the Board should consider the formulation of such regulations carefully and make them properly restrictive.

Governor Robertson suggested that there be deleted from the draft of reply to the Comptroller's Office all references to the possibility of legislation, so that the letter would then deal solely with the views of the Board on the proposed ruling of the Comptroller.

This suggestion being accepted by the other members of the Board, unanimous approval was given to a letter to Mr. Faulstich in the form attached as Item No. 6.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Chicago (attached Item No. 7) approving the appointment of Robert J. Vilchinsky as examiner.

Memorandum from the Secretary of the Board recommending the appointment of Alberta W. Currier as Records Clerk, Office of the Secretary, with basic annual salary at the rate of $4,635, effective the date of entrance upon duty.

Memorandum dated April 27, 1964, from Mr. Johnson, the Board's Security Officer, recommending that the position of Assistant to the Director in the Division of Administrative Services be declared sensitive and that the incumbent (John D. Smith) be cleared by means of a full-field investigation.

Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 1
4/28/64

OFFICE OF THE CHAIRMAN

May 13, 1964.

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

Dear Joe:

As you know, President Johnson has recently expressed his concern "regarding reports of lack of coordination of action and procedures among the Federal bank supervisory agencies" and has asked the Secretary of the Treasury to establish procedures "to assure that every effort is made by these agencies to act in concert and compose their differences".

Relations between the Board of Governors and the Federal Deposit Insurance Corporation have always been most cordial and have been consistently marked by a spirit of cooperation and a willingness to attempt to resolve any differences in the views of the two agencies.

There has been only one major area in which a conflict of views has arisen between our agencies, although it is one that has remained unresolved for many years. I refer, of course, to the question whether absorption of exchange charges should be regarded as an indirect payment of interest on deposits. The long history of this problem and the failure of persistent efforts to reach a solution are reflected in the enclosed historical memorandum regarding the matter which I think you may find interesting and helpful.

While the problem is not one that concerns all banks, it continues to be a very serious problem in some sections of the country. Nonmember insured banks are permitted to absorb exchange and collection charges for their customers, whereas competing member banks are precluded from doing so because of the position taken by the Board of Governors. Obviously, the result is that member banks and nonmember insured banks are being treated differently under provisions of law relating to the payment of interest on deposits that were clearly intended to apply equally to both classes of banks. The Board has from time to time received strong complaints from member banks which have lost deposits to competing nonmember banks as a consequence of the present situation.

As you will note from the enclosed memorandum, the Board in recent years has explored the possibility of reversing its own position in this matter so that member banks might be permitted to absorb exchange and collection charges and thus be able to compete on an equal basis with nonmember insured banks. Any such action, however, would, in the Board's opinion, be subject to attack as being contrary to the letter and spirit of the provisions of law prohibiting member banks from paying interest on demand deposits "directly or indirectly, by any device whatsoever". Moreover, it is probable that such action would add substantially to the expenses of member banks. At the same time, it might provide a strong impetus to the further development of the practice of charging exchange that prevails in some areas of the country, a practice which the Board regards as unwarranted and contrary to the public interest.

In the circumstances, the Board would appreciate further consideration of this matter by your Corporation with the hope that, in order to resolve this long-standing conflict and correct the present inequitable situation, your Corporation may be willing to modify its views so that nonmember insured banks, like member banks, would be precluded from absorbing exchange and collection charges except in trivial amounts.

The Board's present position in this matter is reflected in interpretations published by the Board in August and November 1960 (1960 Federal Reserve Bulletin, pages 858 and 1226). In effect, that position is that the absorption of exchange charges in amounts aggregating more than $2 for any one depositor in any calendar month or any regularly established period of 30 days constitutes a payment of interest on demand deposits contrary to the law. As indicated in the interpretations mentioned, it is also the Board's position that a member bank should be considered as paying interest on demand deposits if it maintains balances with another bank in return for which such other bank directly or indirectly absorbs for the member bank (and thus for the ultimate benefit of the member bank's depositors) exchange charges made by the drawee banks.

The Board has considered various suggested alternatives to the present "$2 rule", such as a rule that would permit absorption of all exchange on items with a face amount of not more than $50, or one that would allow the absorption of exchange up to not more than five cents on any single item. Any such alternative, however, would have the effect of permitting absorption of exchange in substantial amounts. Consequently, the Board believes that the most practical approach is to continue the rule that exchange absorbed may not exceed a prescribed minimal amount for any one customer

during a calendar month or other regularly established period, although the Board would be prepared to modify the rule to increase the prescribed limit from $2 to $5.

If your Corporation, after further consideration, should be inclined to concur in the Board's position, it is suggested that action might take the form of a joint statement by your Corporation and the Board of Governors, with appropriate amendments to your regulations and the Board's Regulation Q with respect to payment of interest on deposits.

The Board would appreciate an expression of your views; and, if you think it might be helpful, we would be glad to meet with you or your board of directors to discuss the matter further.

Sincerely yours,

Bill

Wm. McC. Martin, Jr.

Enclosure

P.S. This is the letter I talked to you about.

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

Item No. 2
4/28/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 29, 1964.

Mr. Herbert F. Sturdy,
Gibson, Dunn & Crutcher,
634 South Spring Street,
Los Angeles, California 90014.

Dear Mr. Sturdy:

This is in response to your letters of February 13, 1964, and February 28, 1964, to the Federal Reserve Bank of San Francisco, requesting an exception to the ruling of the Board of Governors (published in the Federal Reserve Bulletin for January 1964) to the effect that notes and debentures may not be regarded as "capital", "capital stock", or "surplus" for purposes of certain provisions of the Federal Reserve Act. You urge that an exception be made in the case of notes or debentures that are subordinated to claims of depositors and other creditors and may not be paid at maturity unless they are replaced through the sale of stock, through subsequent retained earnings, or by the issuance of similarly limited notes or debentures.

From your letters and the enclosures thereto, it appears that you are particularly concerned with such an exception for purposes of (a) the base for calculating limitations on banks' loans to one borrower and (b) approval of investments in bank premises in excess of capital stock, under section 24A of the Federal Reserve Act (12 U.S.C. 371d).

As to the loan-limit base, the Board early ruled that State banks are not subject to the provisions of R. S. 5200 (12 U.S.C. 84). (1917 Bulletin 879) The Comptroller of the Currency has sole responsibility for interpreting R. S. 5200 as it applies to national banks. The Board of Governors, therefore, is without authority to rule on whether capital debentures constitute "capital", "capital stock", or "surplus" for purposes of laws establishing limitations on bank loans (except in those instances where they are secured by stock or bond collateral (12 U.S.C. 248(m)).

As to investment in bank premises, your letter of February 13, 1964, at the bottom of page 19, indicates that, in

passing on requests for approval of bank-premises investments under section 24A, the Board could either consider capital debentures as "capital stock" or otherwise give due consideration to capital debentures outstanding. You then state, "The latter would probably be the more appropriate approach". Consequently, it appears that you are less concerned with whether the Board rules that capital debentures are "capital stock" for the purposes of determining whether the Board's approval is required than with whether the Board would give due consideration to the existence of such debentures in acting upon requests for approval.

You may be assured that in acting upon requests for approval of investment in bank premises in excess of capital stock, the Board attempts to evaluate all significant circumstances of the bank's situation. Capital debentures outstanding would be given appropriate consideration, regardless of the fact that the Board does not consider them legally to constitute "capital stock".

The Board recognizes that there is, at least insofar as bank depositors are concerned, merit in your argument that capital debentures are, if properly subordinated and limited as to repayment, the economic equivalent of preferred stock, although there are contrary arguments also. Legally, however, the reasons set forth in the ruling published in the January 1964 Bulletin would seem to apply regardless of the extent of subordination or restrictions upon repayment. In short, the Board considers that for capital debentures of any nature to be regarded by the Board as "capital", "capital stock", or "surplus" would require an act of Congress similar to the Act that made capital debentures purchased by the Reconstruction Finance Corporation "capital" for purposes of membership in the Federal Reserve System.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 3
4/28/64

OFFICE OF THE CHAIRMAN

April 28, 1964

The Honorable Douglas Dillon,
Secretary of the Treasury,
Washington, D. C.

Dear Doug:

This refers to the recent conversations between representatives of the Treasury and the Federal Reserve System about a proposal to make a special shipment of $30,000 in nickels to a nonmember bank in Nevada.

As you know, the Federal Reserve Banks have for some time been rationing their allotments of coin to member and nonmember banks. At best such a procedure is irritating to all concerned. The Board believes that the only hope for some understanding and acceptance of the necessity for severe rationing lies in assurance that all banks are being treated alike.

In this light the Board feels that any special shipments of coin to commercial banks would be undesirable because they would raise questions of equity and would create pressures in other areas. If, however, there are circumstances which the Treasury feels warrant special shipments, the Board would hope that in such cases arrangements could be made to have the shipments go directly from the Mint to the commercial banks concerned and avoid involving the Federal Reserve Banks in any way.

Sincerely yours,

(Signed) Bill

Wm. McC. Martin, Jr.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 4
4/28/64

OFFICE OF THE CHAIRMAN

May 1, 1964

The Honorable Wright Patman, Chairman,
Banking and Currency Committee,
House of Representatives,
Washington, D. C. 20515

Dear Mr. Chairman:

This is in reply to your letter of April 8, 1964, enclosing for the Board's comment a copy of the bill H. R. 10668. The principal purpose of that bill is to bring within the scope of the Bank Holding Company Act of 1956 (12 U.S.C. 1841 et seq.) testamentary trusts and charitable and educational foundations which control bank assets of $100 million or more. The bill would also, by amending the Bank Merger Act (12 U.S.C. 1828(c)), require each Federal supervisory agency to take into consideration the possible inconsistency of a proposed merger with the purposes and objectives of the Bank Holding Company Act, when passing upon an application for approval under the Bank Merger Act of a transaction that would remove a company from the purview of the Holding Company Act.

The Board has repeatedly urged amendment of the Bank Holding Company Act to terminate exemptions which cannot be justified in principle and which perpetuate, in the case of certain organizations, the possibility of abuses resulting from unregulated expansion or from the common control of banking and nonbanking interests against which the Act was directed. The Board notes that on April 14, 1964, you introduced a bill, H. R. 10872, which would carry out the principal recommendations of the Board to this effect. The particular case which H. R. 10668 is designed to cover presents similar potentialities for abuse; it involves the common control of a large number of banks and of a large amount of nonbanking assets by a trust that has perpetual existence.

The Board strongly favors enactment of a bill that would make the Bank Holding Company Act cover such situations, provided that this is accomplished without bringing within the scope of the Act trusts such as those frequently created to take care of the spouse or minor children of a decedent.

A principal problem at which the Bank Holding Company Act is directed is the common control, for an indefinite period of time, of banks and nonbanking interests; and it appears that this is one reason why corporate control of banks is covered by the Act and control by individuals, partnerships, and nonbusiness trusts is not. But the problem referred to can exist in the case of trusts, both testamentary and inter vivos. Nor does the potentiality for abuse exist only where a large amount of banking assets is controlled. Therefore, the restriction of the proposed amendment to testamentary trusts, and the $100 million minimum, do not appear to be warranted.

The Board believes that the underlying objective of the bill would be better effected by substituting the following language for subsection (a) of the bill:

"That (a) section 2(b) of the Bank Holding Company Act of 1956 (12 U.S.C. 1841(b)) is amended to read as follows:

"(b) 'Company' means any corporation, business trust, association or similar organization, or any trust unless by its terms it must terminate within 25 years, or not later than the death of a named beneficiary, but shall not include (1) any corporation the majority of the shares of which are owned by the United States or by any State, or (2) any partnership."

This amendment would also carry out the proposal embodied in H. R. 10872 that foundations which control banks be brought under the Bank Holding Company Act.

The proposed amendment of the Bank Merger Act (subsection (b) of H. R. 10668) apparently is intended to prevent the combining of all banks in a holding company system into a single bank with a number of offices, thereby avoiding the purposes of the Bank Holding Company Act. It is questionable whether such an amendment would accomplish that objective. On the other hand, enactment of H. R. 10872 as well as H. R. 10668 (with the changes recommended above) would achieve that end, since it would make the Bank Holding Company Act applicable to holding companies with one or more subsidiary banks. (As the Committee knows, the Holding Company Act now applies only to companies with two or more subsidiary banks.) Accordingly, the Board urges enactment of both bills.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 5
4/28/64

OFFICE OF THE CHAIRMAN

May 1, 1964

The Honorable A. Willis Robertson, Chairman,
Banking and Currency Committee,
United States Senate,
Washington, D. C. 20510

Dear Mr. Chairman:

This is in reply to your letter of February 27, 1964, enclosing for the Board's comments a copy of the bill S. 2561. The principal purpose of that bill is to bring within the scope of the Bank Holding Company Act of 1956 (12 U.S.C. 1841 et seq.) testamentary trusts and charitable and educational foundations which control bank assets of $100 million or more. The bill would also, by amending the Bank Merger Act (12 U.S.C. 1828(c)), require each Federal supervisory agency to take into consideration the possible inconsistency of a proposed merger with the purposes and objectives of the Bank Holding Company Act, when passing upon an application for approval under the Bank Merger Act of a transaction that would remove a company from the purview of the Holding Company Act.

The Board has repeatedly urged amendment of the Bank Holding Company Act to terminate exemptions which cannot be justified in principle and which perpetuate, in the case of certain organizations, the possibility of abuses resulting from unregulated expansion or from the common control of banking and nonbanking interests against which the Act was directed. The Board notes that on April 14, 1964, a bill, H. R. 10872, was introduced into the House of Representatives which would carry out the principal recommendations of the Board to this effect. The particular case which S. 2561 is designed to cover presents similar potentialities for abuse; it involves the common control of a large number of banks and of a large amount of nonbanking assets by a trust that has perpetual existence.

The Board strongly favors enactment of a bill that would make the Bank Holding Company Act cover such situations, provided that this is accomplished without bringing within the scope of the Act trusts such as those frequently created to take care of the spouse or minor children of a decedent.

A principal problem at which the Bank Holding Company Act is directed is the common control, for an indefinite period of time, of

banks and nonbanking interests; and it appears that this is one reason why corporate control of banks is covered by the Act and control by individuals, partnerships, and nonbusiness trusts is not. But the problem referred to can exist in the case of trusts, both testamentary and inter vivos. Nor does the potentiality for abuse exist only where a large amount of banking assets is controlled. Therefore, the restriction of the proposed amendment to testamentary trusts, and the $100 million minimum, do not appear to be warranted.

The Board believes that the underlying objective of the bill would be better effected by substituting the following language for subsection (a) of the bill:

"That (a) section 2(b) of the Bank Holding Company Act of 1956 (12 U.S.C. 1841(b)) is amended to read as follows:

"(b) 'Company' means any corporation, business trust, association or similar organization, or any trust unless by its terms it must terminate within 25 years, or not later than the death of a named beneficiary, but shall not include (1) any corporation the majority of the shares of which are owned by the United States or by any State, or (2) any partnership."

This amendment would also carry out the Board's proposal that foundations which control banks be brought under the Bank Holding Company Act.

The proposed amendment of the Bank Merger Act (subsection (b) of S. 2561) apparently is intended to prevent the combining of all banks in a holding company system into a single bank with a number of offices, thereby avoiding the purposes of the Bank Holding Company Act. It is questionable whether such an amendment would accomplish that objective. On the other hand, enactment of a bill embodying the provisions of H. R. 10872 as well as S. 2561 (with the changes recommended above) would achieve that end since it would make the Bank Holding Company Act applicable to holding companies with one or more subsidiary banks. (As the Committee knows, the Holding Company Act now applies only to companies with two or more subsidiary banks.) Accordingly, the Board urges enactment both of S. 2561 and of a bill to carry out the recommendations embodied in H. R. 10872.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

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

Item No. 6
4/28/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 28, 1964.

Mr. A. J. Faulstich,
Administrative Assistant to the
Comptroller of the Currency,
Treasury Department,
Washington, D. C. 20220

Dear Mr. Faulstich:

With your letter of April 16, 1964, you forwarded to the Board for comment, in accordance with the procedures set forth in Secretary Dillon's letter of March 3, 1964, to the three Federal banking agencies, a proposed ruling of the Comptroller of the Currency that a national bank may acquire and hold directly stock interests in foreign banks as a means of conducting its overseas operations.

The Board is of the firm opinion that, in the absence of action by the Congress, the acquisition and holding of stock as described in the proposed ruling of the Comptroller would be contrary to Federal banking law. Accordingly, the Board would strongly urge that the proposed ruling not be issued.

Under paragraph Seventh of section 5136 of the Revised Statutes (12 U.S.C. 24), a national bank may not purchase for its own account any shares of stock of a corporation "[e]xcept as hereinafter provided or otherwise permitted by law". It is the opinion of the Board that the acquisition and holding by a national bank of the stock of a foreign bank clearly is neither "hereinafter provided" for nor "otherwise permitted by law" within the meaning of those words as used in the statute just cited.

That the acquisition and purchase of stock as contemplated by the Comptroller's proposed ruling is not within any incidental powers of national banks is abundantly clear from the statutory pattern established by the Congress. Thus, when Congress has considered it desirable that national banks be able to purchase corporate stock for their own accounts, statutes have been enacted which specifically permit such purchases. This has been done even where the corporation whose stock the national bank would acquire was engaged in activities in which the national bank itself could engage. For example, under paragraph Seventh of section 5136 of the Revised

Statutes a national bank may invest a limited amount of its funds in the stock of a corporation organized to conduct a safe-deposit business. Section 24A of the Federal Reserve Act (12 U.S.C. 371d) specifically authorizes, subject to certain limitations, the purchase of stock in corporations holding bank premises. The Bank Service Corporation Act of 1962 (12 U.S.C. 1861-65) enables a national bank to invest up to 10 per cent of its capital and surplus in such a corporation performing "bank services". The particularity with which Congress has dealt with the matter is indicated also by the Small Business Investment Act of 1958 (15 U.S.C. 682) which permits national banks to purchase limited amounts of the stock of small business investment companies.

The Congressional pattern of expressly authorizing the purchase of corporate stock by national banks in appropriate cases follows a long line of judicial decisions holding that a national bank has no incidental power either to establish a branch or to invest in the stocks of another corporation, including another national bank.

With respect to the conduct of operations abroad, Congress has been very specific as to what shall be permitted. Section 25 of the Federal Reserve Act (12 U.S.C. 601 et seq.) authorizes national banks to establish foreign branches, but only with the approval of the Board and upon such conditions and under such regulations as the Board may prescribe. The need for specific authority from Congress regarding the powers of national banks in the area of international operations was reaffirmed as recently as 1962 when the law, pursuant to a recommendation of the Board, was amended to authorize the Board to issue regulations permitting some expansion of the powers of foreign branches of national banks. (12 U.S.C. 604a)

With similar specificity, Congress has permitted national banks to invest to a limited extent in the stock of domestically-chartered "agreement" corporations engaged in foreign banking under section 25 of the Federal Reserve Act. But, this authority may be exercised only if the corporation involved has entered into an agreement with the Board to restrict its operations in accordance with such limitations and restrictions as the Board may prescribe. The need for express authority for the conduct of overseas operations by national banks is clearly evidenced also by section 25(a) of the Federal Reserve Act (12 U.S.C. 611-31), vesting authority in the Board to charter, regulate, and supervise so-called Edge corporations engaged in foreign banking and financial operations. National banks are specifically permitted by section 25(a) to invest limited amounts in such corporations.

Any national bank having a foreign banking subsidiary under either section 25 or section 25(a) of the Federal Reserve Act may

extend its overseas operations, but only with the Board's approval, either through branches of such a subsidiary or through other corporations controlled by the subsidiary.

The particular concern of Congress with respect to the overseas operations of United States banks and the need for equality and uniformity in the administration of the law to different classes of banks has been made quite manifest. Thus, the law concerning the establishment of foreign branches by national banks is made applicable to State member banks by section 9 of the Federal Reserve Act. (12 U.S.C. 321) Also, by virtue of section 9 of the Federal Reserve Act (12 U.S.C. 335), the prohibition in paragraph Seventh of section 5136 of the Revised Statutes against stock purchases by national banks extends to State member banks the same restrictive requirements with respect to the establishment of foreign branches and the conduct of foreign operations through subsidiaries as apply to national banks.

In an area such as this in which Congress has, with care and precision, consistently limited the manner in which member banks may conduct operations abroad, it is clear that the objective of the proposed interpretation can be attained, as indicated earlier, only by Congressional action and is beyond achievement by an administrative ruling or interpretation under existing Federal banking statutes.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 7
4/28/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 29, 1964

Mr. Leland M. Ross, Vice President,
Federal Reserve Bank of Chicago,
Chicago, Illinois. 60690.

Dear Mr. Ross:

In accordance with the request contained in your letter of April 23, 1964, the Board approves the appointment of Robert J. Vilchinsky as an examiner for the Federal Reserve Bank of Chicago. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.