

71609

Minutes for May 11, 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

M

Gov. Mills

[Signature]

Gov. Robertson

CRB

Gov. Balderston

[Signature]

Gov. Shepardson

[Signature]

Gov. Mitchell

[Signature]

Gov. Daane

[Signature]

Minutes of the Board of Governors of the Federal Reserve System
on Monday, May 11, 1964. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Shay, Assistant General Counsel
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Doyle, Attorney, Legal Division
Mr. Egertson, Supervisory Review Examiner,
Division of Examinations
Mr. Poundstone, Review Examiner, Division of
Examinations

Branch application (Item No. 1). Unanimous approval was given to a letter to Bank of Utah, Ogden, Utah, approving the establishment of a branch in Riverdale. A copy of the letter is attached to these minutes as Item No. 1.

Mr. Egertson then withdrew from the meeting.

Possible amendment to section 25. There had been distributed a memorandum from Messrs. Shay and Doyle dated May 7, 1964, submitting for the Board's consideration a draft of letter to the Chairmen of the Congressional Committees on Banking and Currency that would submit a proposed

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amendment to section 25 of the Federal Reserve Act to permit national banks (and therefore State member banks by virtue of section 9 of the Act) to apply to the Board for permission to acquire and hold controlling stock interests in foreign banks. The proposed amendment would prevent acquisition of the controlling interest in any foreign bank that was engaged in any activity in the United States that was not, in the Board's judgment, incidental to its foreign business. The amendment would also limit aggregate stock investments under sections 25 and 25(a) to 10 per cent of a member bank's capital and surplus.

The memorandum pointed out that in a letter to the Budget Bureau dated May 13, 1963, the Board indicated that it would favor an amendment to section 25 along these lines. The question was revived this year by a proposed ruling by the Comptroller of the Currency to the effect that under existing law national banks could invest directly in the stock of foreign banks. In a letter to the Comptroller's Administrative Assistant dated April 28, 1964, the Board took the position that such direct investment was not presently permissible under Federal law. In light of these circumstances, it was thought that the Board might want to consider the possibility of proposing appropriate legislation.

As noted in the memorandum, the case for relaxing the restriction on direct holding of foreign bank stock by national banks had been urged in 1962 in the report of the Comptroller's Advisory Committee on Banking. It had also been urged in letters written to Chairman Martin in 1963 by the President of First National City Bank of New York. Similarly, Chase

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Manhattan Bank had advocated legislation that would remove its Brazilian and Venezuelan banking affiliates from the scope of section 23A restrictions.

Following comments by Mr. Shay, the Chairman turned to Mr. Solomon, who said he did not see any strong reason for insisting on a separate corporation coming between a member bank and its foreign banking subsidiaries. In fact, there might be some question as to the need to limit direct ownership to situations involving controlling interests.

Mr. Goodman observed that there might be some question on policy grounds as to whether any legislation should be proposed at this time. He also noted that, as implied by Mr. Solomon's comments, the main interest at present seemed to be centered in the so-called junior partnership arrangement rather than acquisition of controlling interest. If the same supervisory powers were available as with respect to indirect investments through Edge or agreement subsidiaries, legislation authorizing member banks to apply for the Board's permission to invest directly in foreign banks would seem to him appropriate. In the representations of First National City Bank on this matter, he sensed basically an objection to the Board's supervision of foreign banking subsidiaries. National City apparently would like them to have authority to make any loans that a foreign branch could make.

Mr. Shay commented that the Legal Division, in presenting the matter for the Board's consideration, held no particular view as to how

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the subject should be approached in terms of fine details. As the proposed legislation was now drafted, the Board would have the same authority over direct investments in foreign banks as with respect to those made through Edge and agreement corporations. This might suggest that the authority for direct investment not be limited to cases where the member bank would hold controlling interest. The Legal Division was not suggesting submission of the proposed legislation at this time with any idea that such legislation was likely to be passed at this session of the Congress. However, it was thought that the Board might like to have its recommendation on record.

Mr. Cardon agreed that there would seem to be little more hope of getting early action on this matter than on the pending matters that were of more importance from the Board's standpoint.

Governor Balderston referred to the question that had been raised from time to time concerning the right of the Board to examine indirectly-owned foreign banks, and Mr. Solomon replied that this was admittedly a perplexing problem. However, it existed under the present arrangement where investments were made indirectly through Edge or agreement corporations, and presumably the Board could follow the same approach in dealing with direct investments in the stock of foreign banks.

After further discussion of this aspect of the matter, Chairman Martin observed that, on policy grounds, there might be a real question whether this was a good time to submit proposed legislation on which there was little possibility of obtaining action.

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Governor Mills indicated that he was undecided on the matter. The proposal Messrs. Shay and Doyle had developed appeared to be consistent with the approach the Board had taken earlier. This would argue on the side that at an appropriate time there would be some advantage in asking for introduction of a bill of this sort, and it might forestall more aggressive action by the Comptroller in advancing his own position. Further, he felt that the interested banks had made a somewhat persuasive case for greater flexibility in their operations. On the other hand, there had been advantages in the Edge and agreement corporations, for they tended to insulate the parent bank from its foreign banking operations. Also, the Edge and agreement corporations could be appropriately supervised and examined by the Board. The revised Regulation K, however, had commingled foreign banking and financing operations to the extent that he found it rather hard to know exactly what the Edge and agreement corporations were doing, and that was where he would have some uneasiness about the proposed legislation. Although there would be a limitation imposed in terms of the amount of a bank's capital and surplus that could be invested in the stock of a foreign bank, he had an intuition that if member banks were permitted to own foreign banks directly, as well as indirectly, the availability of the alternative choices might not operate in the best interests of sound banking and bank supervision. On balance, he was rather inclined to favor the proposal, but he foresaw the possibility of problems arising at some time in the future.

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Governor Robertson said he had grave doubts about the proposal. In his view, this was not the time to submit a recommendation merely to show that the Board was inclined to move in the same direction that someone else was advocating. He also found it difficult to draw a valid distinction between acquisition of stock of foreign banks and domestic banks. The Edge Act was designed to keep banking activities abroad at arm's length. The staff memorandum indicated that there were administrative and tax disadvantages in the present procedure, but he did not know exactly what they were. Similarly, the memorandum indicated that certain unnecessary restrictions would be removed, but it did not say what they were. He knew of no specific situation in which it would be easier to own stock in a foreign bank direct rather than through an Edge corporation. In summary, he had much doubt about the proposal in terms of timing and policy, and he would be inclined to do nothing. Additionally, enactment of the proposed legislation might have the effect of increasing foreign lending by American banks, with adverse consequences in terms of the U. S. balance of payments.

Governor Shepardson said he found it difficult to see the advantage of the indirect, so-called arm's-length approach. If an American bank was involved in banking operations abroad, whether directly or indirectly, it was going to incur about the same obligations, responsibilities, and hazards. In principle, therefore, the proposal would seem to represent a desirable move. Its main purpose apparently would be to accommodate operations by

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member banks in those countries where direct branches were not permitted. As to timing, he was uncertain. There had been instances where the Board had favored a certain course but failed to make its position known, with the result that developments had occurred that tended to put the Board in an unfavorable light. Unless there was good reason to delay, he would be inclined to submit a legislative recommendation on the basis that the proposal represented a desirable move in which it was known that some member banks were interested.

Governor Balderston expressed the view that it would be desirable if the Board could state in its next Annual Report that it had put forward and promoted a sound package of proposed legislation. He doubted that it would be possible to get any such legislation enacted at this session of Congress, but he felt that the Board should be doing something other than taking negative positions on legislative proposals advanced by others. This particular item did not seem too important in itself; it would be of interest to only a relatively few banks. However, he was not convinced that the Board was getting too much advantage out of the existing legislative situation that required indirect acquisition of interests in foreign banking enterprises.

Chairman Martin expressed agreement with Governor Balderston's suggestion that a package of legislation be formulated and said he did not believe that a piecemeal approach was too effective. It would be better to start working on a legislative program for 1965, pulling together a number of items that the Board favored and submitting them at one time.

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Governor Shepardson indicated that he would be agreeable to such a plan, but added that this would mean that the Board should begin soon to prepare the package of legislation. Other members of the Board also expressed a desire that the package of possible legislative proposals be drawn together as promptly as possible. It was made clear in further discussion that an omnibus bill was not contemplated. Instead, the program would comprise various legislative proposals that the Board considered worthy of presenting to the Congress for consideration as a package.

Accordingly, it was agreed that the proposal to amend section 25 would be held in abeyance and that the Legal Division would undertake to prepare for the Board's consideration a package of legislative proposals that the Board could consider with a view to deciding what legislative program should be recommended to the Congress toward the end of this year or in early 1965.

Supervision of foreign banking activities. Governor Robertson repeated a suggestion he had made last fall that active consideration be given to augmenting the staff resources of the Division of Examinations devoted to foreign banking matters, and Mr. Solomon described efforts being made toward that end.

Rotation of directors and use of nominating committees (Item No. 2).
Pursuant to the understanding at the meeting on May 6, 1964, there was distributed a new draft of letter to the Chairmen of the Federal Reserve Banks supporting the principle of rotation of service of Class A and

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Class B directors and commenting with regard to the use of nominating advisory committees.

Governor Mills indicated that he continued to have a preference, for reasons he had made known to the Board previously, against sending any letter to the Federal Reserve Banks. However, he noted that a series of draft letters had been presented to the Board for consideration, and that there would appear to have been sufficient discussion to warrant reaching a decision.

Other members were of the view that it was desirable to place on record through such a letter the Board's support of the principle of rotation of service and to encourage the furtherance of the practice. As to the nominating advisory committees, the importance was suggested of making clear that if such a committee was utilized, the officers of the Reserve Bank should avoid any appearance of attempting to influence the committee's deliberations. It was also suggested that it might be helpful to the Board's examining staff to have a guideline letter outstanding.

Accordingly, the letter to the Chairmen of the Federal Reserve Banks was approved, Governor Mills' reservations being noted, with the understanding that copies would be sent to the Reserve Bank Presidents. A copy of the approved letter is attached as Item No. 2.

Questions raised by Mr. Schremp. Mr. Sherman reported for the Board's information on certain matters that had been discussed with him

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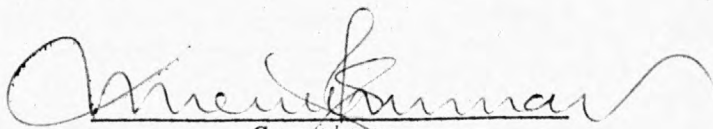
in telephone conversations by Mr. Robert A. Schremp, a member of the staff of Congressman Patman. These related to the degree of availability of Federal Open Market Committee minutes for use by interested parties if such minutes were placed in National Archives, and to the question why Federal Reserve Bank Presidents did not take oaths of office in their capacity as Presidents. Mr. Sherman said it had been pointed out to Mr. Schremp that a Reserve Bank President took an oath of office whenever he served as a member or alternate member of the Federal Open Market Committee, and he went on to describe the general nature of the discussion of this matter that had taken place.

The meeting then adjourned.

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

Memorandum from Mr. Schwartz, Director, Division of Data Processing, dated May 6, 1964, recommending that Mr. Mack Rowe, who is to join the Board's staff in July as Chief of the Economic Graphics Section of the Division of Data Processing, be invited to visit the Board on May 26, 1964, on a consultant basis at the rate of \$40 for the day. Approval of this appointment constituted approval of the resulting overexpenditure in the Fees Account of the 1964 budget of the Division of Data Processing.

Memorandum from the Division of Data Processing recommending an increase in the basic annual salary of Ruth H. Smith, Operator (Key Punch) in that Division, from \$4,195 to \$4,495, with a change in title to Key Punch Supervisor, effective May 11, 1964.


Secretary

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

Item No. 1
5/11/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 11, 1964.

Board of Directors,
Bank of Utah,
Ogden, Utah.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Bank of Utah, Ogden, Utah, of a branch in the vicinity of the Riverdale Municipal Building, Riverdale, Utah, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)



Item No. 2
5/11/64BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

S-1913

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 11, 1964.



Dear Sir:

As you know, in appointing Class C directors of Federal Reserve Banks, the Board for many years has adhered to a policy of rotation, under which the service of such directors has been limited to two terms, except in the case of the Chairman. (See Board's letter of April 3, 1953, F.R.L.S. #3131.1)

The Board believes that the advantages of rotation among Federal Reserve Bank directors outweigh any disadvantages and that any steps that member banks might take toward making the rotation principle more generally applicable in the election of Class A and Class B directors should be encouraged as far as possible. In this connection, it may be recalled that, at a conference of Federal Reserve Bank Chairmen in December 1959, there was unanimous agreement as to the desirability of rotation in the service of such directors.

The suggestion has been made that the objective of rotation can be furthered by the voluntary use on the part of member banks of unofficial nominating advisory committees, such as now exist in several Federal Reserve districts. It would seem appropriate for the Reserve Banks to cooperate with nominating committees of that type in districts in which they have been, or may be, instituted by the member banks, whether or not their establishment was primarily for the purpose of encouraging rotation in service. For example, there would appear to be no objection to arrangements for meetings of such committees at the Reserve Banks, for providing clerical and administrative assistance, and for absorbing reasonable expenses incident to such meetings. In any case, of course, directors and officers of the Reserve Bank should be careful to avoid any actions that might be regarded as the exertion of influence in the choice of candidates by such committees.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Merritt Sherman".

Merritt Sherman,
Secretary.

TO THE CHAIRMEN OF ALL FEDERAL RESERVE BANKS.