

Minutes for June 4, 1964.

To: Members of the Board

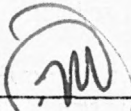
From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

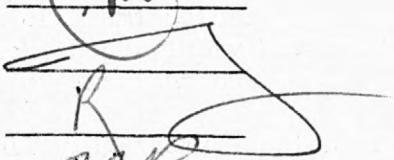
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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.

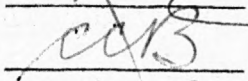
Chm. Martin



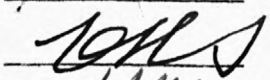
Gov. Mills



Gov. Robertson



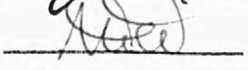
Gov. Balderston



Gov. Shepardson



Gov. Mitchell



Gov. Daane



Minutes of the Board of Governors of the Federal Reserve System  
on Thursday, June 4, 1964. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Cardon, Legislative Counsel  
Mr. Fauver, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Brill, Director, Division of Research and  
Statistics  
Mr. Solomon, Director, Division of Examinations  
Mr. Hexter, Assistant General Counsel  
Mr. Shay, Assistant General Counsel  
Mr. Hooff, Assistant General Counsel  
Mr. Holland, Associate Director, Division of  
Research and Statistics  
Mr. Furth, Adviser, Division of International  
Finance  
Mr. Leavitt, Assistant Director, Division of  
Examinations  
Mr. Spencer, General Assistant, Office of the  
Secretary  
Mr. Hricko, Senior Attorney, Legal Division  
Mr. Sanders, Attorney, Legal Division  
Mr. Gemmill, Economist, Division of International  
Finance  
Mr. Egertson, Supervisory Review Examiner,  
Division of Examinations  
Mr. McClintock, Supervisory Review Examiner,  
Division of Examinations

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

Letter to The Detroit Bank & Trust Company, Detroit,  
Michigan, approving the establishment of a branch  
in Nankin Township, Wayne County.

Item No.

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	<u>Item No.</u>
Telegram to the Federal Reserve Bank of New York authorizing the opening and maintenance of an account in the name of the Banque Nationale du Rwanda.	2
Telegram to the Federal Reserve Bank of New York authorizing the opening and maintenance of an account in the name of the Banque du Royaume du Burundi.	3
Letter to all Federal Reserve Banks regarding bank credit extended to foreign borrowers. (The letter as approved included certain editorial changes in the draft that had been distributed.)	4

Mr. McClintock then withdrew from the meeting.

Report on competitive factors (Milwaukie-Beaverton-Gresham, Oregon). A report was approved unanimously for transmittal to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of Peoples Bank of Oregon, Beaverton, Oregon, and Gresham State Bank, Gresham, Oregon, into First State Bank of Oregon, Milwaukie, Oregon. The conclusion read as follows:

First State Bank of Oregon, Milwaukie, Peoples Bank of Oregon, Beaverton, and Gresham State Bank, Gresham, serve different communities surrounding the city of Portland. There would appear to be very little, if any, competition among these banks even if they were not commonly owned, and potential for competition is considered limited in the event this common ownership ceased. The proposed transaction would not have adverse effects on other banks in the Portland area.

Messrs. Hricko and Egertson then withdrew from the meeting.

Hearings on H.R. 8499. There had been distributed under date of June 3, 1964, a memorandum from the Legal Division with regard to H.R. 8499,

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a bill that would provide for the regulation of collective investment funds maintained by banks. The bill would vest regulatory power over such funds in the Comptroller of the Currency and enforcement responsibility would be divided among the three Federal bank supervisory agencies.

The memorandum noted that by letter of May 26, 1964, the Board had been offered an opportunity to testify before the House Interstate and Foreign Commerce Committee. It was recommended that the Board accept the invitation to testify.

On March 26, 1964, the Board reported to the Committee on this bill and had expressed no opinion as to the wisdom of enlarging the scope of common trust funds beyond limits prescribed by section 17 of Federal Reserve Regulation F, Trust Powers of National Banks, prior to September 28, 1962, when the Board ceased to exercise authority with respect to trust powers of national banks. The Board had indicated, however, that "if the concept is so broadened, any fund whose operations would involve the public offering of 'securities' within the purview of the Federal securities laws ... should be subject to those laws and to the jurisdiction of the Securities and Exchange Commission thereunder."

The memorandum noted that H.R. 8499 related to a matter that the Board had regulated for many years. Passage of the bill would require the Board to perform administrative and enforcement duties with respect to collective investment funds maintained by member State banks. The memorandum went on to discuss the kind of testimony that might be given;

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the Board could recommend either enactment of no legislation or enactment of legislation in lieu of H.R. 8499. Substitute legislation might vary from (1) completely prohibiting banks from establishing collective investment funds beyond the scope of the Board's former Regulation F to (2) permitting banks freely to establish and operate the equivalent of mutual funds in compliance with certain features of the Securities Act of 1933 and the Investment Company Act of 1940.

As discussion opened, Chairman Martin indicated that he had accepted the invitation to testify and was scheduled to appear on Wednesday, June 10, before the Subcommittee on Commerce and Finance. Therefore, the nature of the testimony to be presented should be considered.

During the discussion that ensued, the members of the Board were of the unanimous view that if legislation were enacted, regulation and enforcement of collective investment funds maintained by banks should reside with the Securities and Exchange Commission.

The discussion also disclosed, however, that there was a feeling on the part of some members of the Board that banks should not be permitted to maintain collective investment funds beyond the scope of the common trust funds formerly permitted under Regulation F.

In this connection, the view was expressed by Governor Mills that to allow the operation by banks of the equivalent of mutual funds would be a backward step, one to which the Board should not be a party. The Board had a supervisory responsibility to guide and lead commercial banks,



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and he believed that the general public looked to the System for informed judgments in areas of this sort. Insofar as the basis for denying the banks a right to engage in this type of business was concerned, the Board was on record during its administration of Regulation F that common trust funds were intended basically to be a convenience to the small holder of funds who could not afford to have a personal trust account. He understood that the limitation on such funds had since been raised substantially by the Comptroller, thus diluting the original principles applicable to the use of common trust funds. If funds were now permitted to be commingled freely and banks were allowed to advertise their availability as a medium of investment, this would amount to flying in the face of the Congressional dictate divorcing the securities business from commercial banking. The free use of collective investment of funds had been for some time an objective of certain commercial bankers, who were anxious to have their banks compete with the securities industry, particularly with the administrators of mutual funds, but in his opinion this departure from the original principles of trust business would not be a wise move.

Governor Daane concurred with the view expressed by Governor Mills that it would be unwise for the banks to be permitted to get into this kind of business.

In further discussion Mr. Hexter explained, at the request of Governor Balderston, why he did not feel that the regulation by the Securities and Exchange Commission, under the Securities Act of 1933

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and the Investment Company Act of 1940, of collective investment funds maintained by banks would conflict with the duties of bank examiners in relation to the examination of trust departments.

At the conclusion of the discussion, there was agreement with a suggestion by Chairman Martin that the statement presented to the House Subcommittee concentrate on the view that the Securities and Exchange Commission should regulate collective investment funds maintained by banks. The testimony could also develop the point that some members of the Board had doubts that banks should be permitted to go into the equivalent of the mutual fund business. While he (Chairman Martin) was of the view that banks should not be excluded from this field, this could be specified as a personal opinion. If testimony was desired from Board members who felt differently, that could be arranged.

It was understood that the statement to be presented on Wednesday, June 10, would be prepared on this basis and that it would be presented in a final form satisfactory to the Chairman.

The meeting then adjourned.

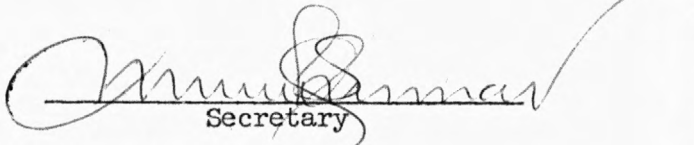
Secretary's Notes: As recommended in a memorandum dated June 4, 1964, from Mr. Sammons, Adviser, Division of International Finance, Governor Shepardson today approved on behalf of the Board the payment to the Center for Latin American Monetary Studies of the amount of \$767.70, covering the Federal Reserve's share of expenses incurred by the Center in performing secretariat functions for the First Meeting of Governors of Central Banks of the American Continent, held at Antigua,

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Guatemala, in April 1964. The approval by Governor Shepardson reflected previous Board discussion and agreements relating to System attendance and participation in the meeting.

Governor Shepardson also approved today on behalf of the Board a letter to the Federal Reserve Bank of Philadelphia (copy attached as Item No. 5) approving the appointment of Louis N. Sanfelice as assistant examiner.

  
Secretary



1955

Item No. 1  
6/4/64

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



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 4, 1964.

Board of Directors,  
The Detroit Bank and Trust Company,  
Detroit, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Detroit Bank and Trust Company, Detroit, Michigan, of a branch at the corner of Wayne and Hunter Roads, Nankin Township, Wayne County, Michigan, 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.)

TELEGRAM  
LEASED WIRE SERVICE

1956  
Item No. 2  
6/4/64

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

June 4, 1964.

SANFORD - NEW YORK

Your wire May 28. Board approves opening and maintenance of an account on the books of the Federal Reserve Bank of New York in the name of the Banque Nationale du Rwanda, subject to the usual terms and conditions. It is understood that participation in this account will be offered to other Federal Reserve Banks.

(Signed) Merritt Sherman

SHERMAN

TELEGRAM  
LEASED WIRE SERVICEItem No. 3  
6/4/64BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

June 4, 1964.

SANFORD - NEW YORK

Your wire May 28. Board approves opening and maintenance of an account on the books of the Federal Reserve Bank of New York in the name of the Banque du Royaume du Burundi, subject to the usual terms and conditions. It is understood that participation in this account will be offered to other Federal Reserve Banks.

(Signed) Merritt Sherman

SHERMAN



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

1958

Item No. 4  
6/4/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 4, 1964.

Dear Sir:

The Board is interested in determining to what degree the recent expansion of bank credit to foreign borrowers is spread throughout the banking system.

With that aim in mind, it would be appreciated if your Bank could arrange to retabulate and summarize in the attached table formats the reports received from banks in your District on Treasury forms B-2 and B-3 as of the last business days in April 1964, January 1964, and July 1963. Classification of member banks by size is according to total deposits reported by the banks on the December 1963 call report.

The Treasury Department has indicated that it has no objection to this internal use of data supplied on the forms referred to.

It would be helpful if the District tabulations could be forwarded to reach this office by Monday, June 15, 1964. Questions that your staff may have regarding this request should be directed to Mr. Robert Gemmill, Economist, Division of International Finance.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman".

Merritt Sherman,  
Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

1959

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 5  
6/4/64



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 4, 1964.

Mr. Joseph R. Campbell, Vice President,  
Federal Reserve Bank of Philadelphia,  
Philadelphia, Pennsylvania 19101.

Dear Mr. Campbell:

In accordance with the request contained in your letter of June 1, 1964, the Board approves the appointment of Louis N. Sanfelice as an assistant examiner for the Federal Reserve Bank of Philadelphia. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.