

Minutes for July 24, 1964

To: Members of the Board

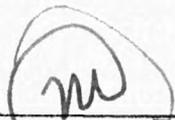
From: Office of the Secretary

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

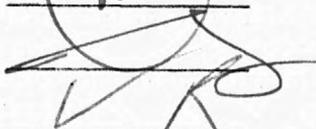
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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.

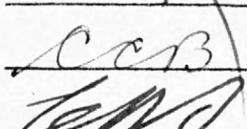
Chm. Martin



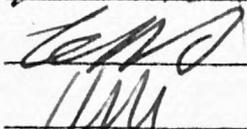
Gov. Mills



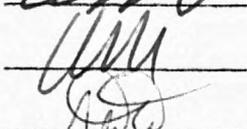
Gov. Robertson



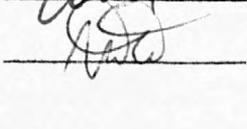
Gov. Balderston



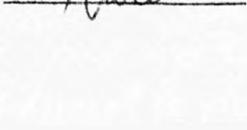
Gov. Shepardson



Gov. Mitchell



Gov. Daane



Minutes of the Board of Governors of the Federal Reserve System
on Friday, July 24, 1964. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Noyes, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Brill, Director, Division of Research and
Statistics
Mr. Koch, Associate Director, Division of
Research and Statistics
Mr. Partee, Adviser, Division of Research and
Statistics
Mr. Furth, Adviser, Division of International
Finance
Mr. Hersey, Adviser, Division of International
Finance
Mr. Spencer, General Assistant, Office of the
Secretary
Mr. Axilrod, Chief, Government Finance Section,
Division of Research and Statistics
Mr. Eckert, Chief, Banking Section, Division of
Research and Statistics
Mr. Bernard, Economist, Division of Research and
Statistics
Miss Krummack, Economist, Division of Research
and Statistics
Mr. Baker, Economist, Division of International
Finance
Mr. Gemmill, Economist, Division of International
Finance

Money market review. Mr. Bernard reported on recent developments
in the Government securities market, with particular reference to the

1/ Withdrew from meeting at point indicated in minutes.

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Treasury advance refunding, after which Mr. Eckert commented on bank reserves, bank credit, and the money supply. Mr. Baker then discussed recent foreign exchange market developments. Tables on the current and earlier Treasury advance refundings, U. S. capital flows, negotiable certificates of deposit outstanding, and monetary developments in the five-week period ended July 22, 1964, had been distributed and were referred to during the course of the review.

At the instance of Governor Mitchell, during the foregoing review there was a general discussion of the adequacy of available money supply data, particularly in view of questions raised regarding the recent rapid growth of the money supply. Reference was made to the long history of discussions between the staffs of the Board and the Federal Reserve Banks concerning the possibility of instituting additional statistical series, the complexities involved in obtaining such data, and questions relating to the selection of particular statistics that might be compiled. There was an indication that if the staff reached a point where it desired the active support of the Board in formulating a program for the collection of additional data bearing on the behavior of the money supply, such support would be forthcoming.

All members of the staff except Messrs. Sherman, Kenyon, Young, Noyes, Brill, Molony, Fauver, Furth, Axilrod, Eckert, and Spencer then withdrew from the meeting and the following entered the room:

Mr. Solomon, Director, Division of Examinations
Mr. Davis, Acting Director, Division of Data Processing
Mr. Hexter, Assistant General Counsel

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Mr. Shay, Assistant General Counsel
 Mr. Daniels, Assistant Director, Division of Bank Operations
 Mr. Leavitt, Assistant Director, Division of Examinations
 Mr. Langham, Assistant Director, Division of Data Processing
 Mr. Young, Senior Attorney, Legal Division
 Mr. Forrestal, Attorney, Legal Division
 Mr. McClintock, Supervisory Review Examiner, Division of Examinations
 Mr. Lyon, Review Examiner, Division of Examinations
 Mr. Rumbarger, Review Examiner, Division of Examinations
 Mr. Veenstra, Chief, Financial Statistics Section, Division of Data Processing

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, St. Louis, Minneapolis, and Dallas on July 23, 1964, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

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

	<u>Item No.</u>
Letter to State Bank of Morton, Morton, Washington, approving an extension of time to accomplish membership in the Federal Reserve System.	1
Letter to Sierra Petroleum Co., Inc., Wichita, Kansas, granting a determination exempting it from all holding company affiliate requirements except for the purposes of section 23A of the Federal Reserve Act.	2
Letter to the Federal Reserve Bank of New York noting without objection the increase in total estimated costs for proposed alterations to its gold vault facilities.	3

With respect to Item No. 2, Governor Robertson commented that the case seemed to fall within the Board's policy applicable to so-called

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one-bank cases. Therefore, despite his disagreement with that policy, as noted on a number of occasions in the past, he would not oppose the granting of the request of Sierra Petroleum Co., Inc.

In connection with Item No. 3, Governor Shepardson remarked that certain questions he had raised when the item was in circulation were dealt with in a distributed memorandum prepared by Mr. Daniels under date of July 22, 1964. The revised estimate of costs for the proposed gold vault alterations appeared to have been satisfactorily prepared, in contrast to the faulty original estimate.

Report on competitive factors (Elkhart-Nappanee, Indiana). There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of State Bank of Nappanee, Nappanee, Indiana, into The First National Bank of Elkhart, Elkhart, Indiana.

In discussion, Governor Mitchell suggested omitting the portion of the draft conclusion which stated that the "dominant position" of First National Bank would be "further enhanced" in relation to the other two banks in Elkhart upon consummation of the proposed merger. He doubted that the merger would have any significant impact on the relative positions of the banks in Elkhart and the bank in nearby Mishawaka. Further, he doubted that as much competition as the draft conclusion suggested actually existed between the merging banks, since Nappanee was about 17 miles south of Elkhart. However, First National would be extending its market area southward, and this factor might be brought out in the conclusion.

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After further discussion in light of the comments by Governor Mitchell, the report was approved unanimously for transmittal to the Comptroller in a form in which the conclusion was modified to read as follows:

Consummation of the proposed transaction would eliminate a unit bank and such competition as exists between the participating banks. It would extend the market area of The First National Bank of Elkhart to the south and present competitors of the State Bank of Nappanee would be subject to more direct competition from a much larger bank.

Messrs. Young (Legal Division) and McClintock then withdrew from the meeting.

International Banking Corporation. There had been distributed a draft of reply to a letter of June 24, 1964, from Chairman James S. Rockefeller of First National City Bank, New York, New York, with regard to the agreement under which First National City's subsidiary, International Banking Corporation, was operating pursuant to section 25 of the Federal Reserve Act.

Mr. Rockefeller's letter indicated that First National City was desirous of obtaining a revision that would place the several foreign banking subsidiaries of International Banking Corporation in no worse an operating position than if First National City had direct branches. Generally speaking, First National City would have direct branches if local laws or customs permitted. It went the subsidiary route only when no other viable alternative seemed practical. Mr. Rockefeller noted that the governing statute did not require the Board to impose restrictions

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on the foreign banking subsidiaries. Yet under the Board's requirements with respect to the foreign subsidiaries, First National City was obliged to operate with far more restrictive regulations than if it had a direct branch. In particular, Mr. Rockefeller referred to the position that had been taken that First National City Trust Company (Bahamas) Limited, Nassau, Bahamas, was limited to \$1,200,000 for a credit line to one borrower, as this amount was 10 per cent of the capital and surplus of International Banking Corporation.

The draft reply referred to the applicability of provisions of Regulation K, Corporations Engaged in Foreign Banking and Financing under the Federal Reserve Act, to an agreement corporation. It noted that the questions raised in the letter from Mr. Rockefeller were not new and that the Board had heretofore considered various suggestions made by First National City Bank and its counsel.

After citing certain instances where the Board had granted, for International Banking Corporation subsidiaries, exclusions from the usual restrictions on loans in the currency of the host country, the reply would bring out that no such exclusion was contained in the Board's letter of October 21, 1960, granting consent for International Banking Corporation to purchase and hold shares of First National City Trust Company (Bahamas) Limited, presumably on the assumption that such relief was not required for a trust company, and particularly in view of the fact that First National City Bank operated a direct branch in Nassau. It would further

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state that while the Board was agreeable to modifying its consent with respect to loans granted by the trust company in the Bahamas in the currency of that country, the loan that gave rise to the present question was not denominated in the currency of the Bahamas, but in United States dollars. On the basis of certain facts cited, it appeared that any loans by the Bahamian trust company in excess of 10 per cent of the capital and surplus of International Banking Corporation would be in technical violation of the Board's consent of October 21, 1960. However, as it appeared that such loans were fully secured by the hypothecation of funds on deposit in the trust company, the Board would now grant an exception. Accordingly, the Board was suspending until further notice (1) the provisions of Regulation K's section 211.9(b), Liabilities of One Borrower, insofar as they related to the obligations of any person for money borrowed where such obligations were fully secured by hypothecation of funds on deposit in the same currency in the trust company, and (2) the provisions of the Board's letter of October 21, 1960, insofar as they related to restrictions on loans granted by the trust company in the Bahamas in the currency of that country. The letter would also propose the execution of an amended agreement between the Board and International Banking Corporation, in light of the current provisions of Regulation K, to specify that the Corporation would undertake to comply in all respects, except as to organizational procedure, with the requirements of section 25(a) of the Federal Reserve Act, and of Regulation K, as if organized and engaged in banking thereunder.

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During discussion of the matter, Governor Robertson noted the length and complexity of the proposed reply. Even so, he did not find in it a completely satisfactory rationalization of the actions proposed to be taken.

In reply to questions, Mr. Solomon remarked that the letter from Mr. Rockefeller seemed to imply that the Board should remove all restrictions on loan operations of the foreign banking subsidiaries of International Banking Corporation that would not be applicable to operations of direct foreign branches of First National City Bank. The letter was not entirely clear, and it could be read in different ways, but the proposed reply would constitute a compromise extending only to certain loans made by the Bahamian trust company.

Governor Mills commented that similar action had been taken in the case of loans made by other banking subsidiaries of International Banking Corporation. He went on to note that First National City Bank had a very sizable lending limit, and the bank apparently was seeking to apply this lending capacity to foreign subsidiaries of International Banking Corporation, which had a much smaller capitalization. Unless the parent bank was prepared to stand behind the loan commitments of the subsidiaries, the latter would be overextending their resources. Governor Mills also said that as a practical matter he believed the Board had been right in its decisions suspending in certain instances in the past restrictions on loans that were made in the currency of the host country; but technically this was a liberal authority.

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Mr. Furth suggested that the rationale of the Board's earlier actions was not applicable in the case of the Bahamian trust company, because First National City was operating a direct branch in the Bahamas. He raised the question whether tax avoidance might not be the underlying factor. Accordingly, he did not find the proposed reply convincing insofar as it would permit expanded loan operations by the Bahamian trust company.

Mr. Solomon remarked that while he could not show strong reasons for the proposed action, neither could he find strong arguments against it. The principal argument in the negative would appear to be some underlying apprehension about the possibility of tax avoidance, and the Board had not attempted heretofore to police tax problems applicable to the operations of Edge and agreement corporations.

There followed further discussion as to the merits of the First National City request in its applicability to the Bahamian situation. Some members of the Board expressed an inclination toward the view that a case had not been made for positive Board action changing the existing restrictions on operations of the trust company, particularly in light of the availability of the direct branch as an alternate vehicle for operations in the Bahamas. Another view was to the effect that the action proposed in the draft reply would be compatible with several earlier Board actions and that the supposed motivations of First National City Bank, as they might extend to tax factors, should not be challenged. There was also discussion of the apparent scope of the request in Mr. Rockefeller's letter and its implications.

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Mr. Shay suggested that there was much to be said for having the groundrules for Edge and agreement corporations uniform. Regulation K contemplated that agreement corporations would not operate in areas of activity not permitted for Edge corporations. The question seemed to him to turn largely on the validity of the loan limitations prescribed by Regulation K.

In further discussion, Governor Mitchell remarked that it seemed the Board needed more in the way of background information on the complex issues that were raised by First National City Bank's letter. Governor Balderston, who concurred with Governor Mitchell's comment, suggested that it would be helpful to have a staff memorandum before a decision was made. There were also several suggestions for revisions in the draft of letter to Mr. Rockefeller, one view expressed being that the draft might be shorter and less encumbered by complicated background details.

Accordingly, it was understood that a revised draft of letter and a staff memorandum on the points raised by the letter from First National City Bank would be prepared with a view to their consideration at another meeting of the Board.

Mr. Furth then withdrew from the meeting and Mr. Smith, Assistant Director, Division of Examinations, entered the room. Mrs. Sette, Chief, Economic Editing, Division of Research and Statistics, and Mrs. Weil, Economist in that Division, also entered at this point.

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Treasury tax regulation (Items 4 and 5). Pursuant to the understanding at the Board meeting on July 10, 1964, there had been distributed, with a memorandum from Messrs. Solomon and Shay dated July 21, 1964, a revised draft of reply to the Treasury Department concerning the interpretation of a Treasury regulation that related to the taxation of certain income of "controlled foreign corporations." The Treasury's question had to do with the income of Edge and agreement corporations derived from foreign subsidiaries.

Governor Robertson commented that although the revised draft was an improvement from an editorial standpoint, it still took the same basic position as the earlier drafts. Hence, the reservations he had expressed at the July 10 meeting continued to be applicable. He noted that the proposed letter, if made available to Edge and agreement corporations, would put them on notice that the Board considered it inappropriate for them to acquire, except in rare instances, an interest of more than 50 per cent in a foreign subsidiary engaged in manufacturing, wholesale selling, or some other like business activity. In his view, if there was to be such a limitation, it should be so stated in Regulation K. However, he would not pursue further at this time his reservations about the proposed letter.

Thereupon, the letter to the Treasury Department was approved, Governor Robertson's reservations having been noted. A copy is attached as Item No. 4. In this connection, it was understood that a copy of the

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letter would be sent to each Federal Reserve Bank with the request that copies be transmitted to Edge or agreement corporations having offices in the Reserve Bank's District. A copy of the letter to the Reserve Banks is attached as Item No. 5.

Messrs. Shay and Forrestal then withdrew from the meeting.

National bank call report data. At the Board meeting on July 23, 1964, Mr. Sherman reported that an informal request had been received from a representative of the Comptroller of the Currency (Mr. Sherman Shapiro) that the Board's Division of Data Processing furnish summary figures from the national bank call reports as of June 30, 1964, in the form in which the information had been specified for reporting by national banks to the Comptroller. Discussion had resulted in a suggestion that it would seem desirable for a request to be submitted to the Board in writing, and that it would be helpful to the Board, in considering any such request, to have information made available to it on the magnitude and complexity of the task.

There now had been distributed a memorandum from the Division of Data Processing prepared under date of July 17, 1964, with regard to the informal request made by the Comptroller's Office. The memorandum described in some detail the work that would be required to furnish the desired information. It was recommended that: (1) the Board not undertake the additional processing of national bank call report data unless policy considerations were an overriding factor; (2) the Board inform

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the Reserve Banks that (a) even though the Statistical Division of the Office of the Comptroller of the Currency was notified of the usual adjustments made in national bank reports for balance and consistency, the Board would not attempt to follow through on subsequent editing changes usually made at the request of the Comptroller's Office, and (b) the review and edit of national bank reports at the Reserve Banks would be the only edit made of these data prior to their publication in the Federal Reserve Bulletin and in the Member Bank Summary Report; and (3) the Comptroller's Office be advised by telephone that the Board was unable to develop a feasible technique for tabulating national bank condition data as of June 30 in the format desired because of certain factors described in an attachment to the memorandum of July 17. This attachment, it was suggested, could be converted to a letter if it were decided that a written response was preferable.

At the Board's request Mr. Langham commented in supplementation of the information presented in the memorandum. He described the original negotiations with the Comptroller's Office for the tabulation of national bank call report data, which negotiations--and subsequent agreement--had assumed uniformity between national bank and State member bank condition data, and he then traced developments from the time of that agreement to those that had led to the current request by the Comptroller's Office. He pointed out that refusal to tabulate the data desired by the Comptroller's Office would be a departure from established procedures, but that it would

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reflect disregard by the Comptroller of the demands of automated data processing.

It was the consensus that the Comptroller's Office should be informed that the Board was not in a position to undertake the processing of the requested data. The substantial volume of work that would be involved was noted, along with the fact that the circumstances under which the original agreement was entered into with the Comptroller's Office were now considerably changed.

As to the implementation of this decision, it was suggested that Mr. Langham advise Mr. Shapiro to such effect by telephone, using the memorandum that had been drafted (the attachment to the July 17 memorandum) as a basis for describing the reasons why it was not believed feasible to accede to the request. Thus, the way would be left open for the Comptroller to submit a written request if he should desire to do so. It was also suggested that Mr. Langham place in the Board's files a memorandum of the telephone conversation, and that he send a copy to Mr. Shapiro.

There was general agreement with these suggestions, and it was understood that the matter would be handled accordingly. (A memorandum was placed in files by Mr. Langham under date of August 3, 1964.)

Denver Branch building site (Item No. 6). At the Board meetings on July 10 and July 21, 1964, consideration was given to a request by the Federal Reserve Bank of Kansas City for authority to purchase at a

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cost of approximately \$2,291,000 a site for a new Denver Branch building. While the reaction to the request was generally favorable, question had been raised about a possible conflict of interest because Park City Corporation, which was offering the property to the Reserve Bank with the statement that no profit would be involved on the transaction, was controlled by officers of a Denver member bank, including a member of the Denver Branch Board of Directors.

Chairman Martin and Governor Shepardson had attended the Reserve Bank directors' meeting in Denver on July 17. At the Board meeting on July 21 the latter reported on that visit and on discussions with the Reserve Bank concerning the proposed property acquisition. It was understood that Mr. Smith, Assistant Director of the Division of Examinations, or someone from the field examining staff would go to Denver to review the records of Park City Corporation in the interest of having complete documentation. A report was to be presented to the Board on the findings of the review, and the matter was then to be considered further.

Mr. Smith reported at this morning's meeting that he had gone to Denver pursuant to the understanding at the July 21 meeting, and that from his review of the records he had a question on only one aspect. The records showed that the price at which the property was being offered to the Reserve Bank was the actual cost to Park City Corporation. However, an agreement made by Park City Corporation with an intermediary in the transaction (Mr. Edgar Calahan, a developer and home builder in

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Denver who had originally initiated the assemblage of certain properties in Block 98) called for the payment to Mr. Calahan of the sum of \$210,000, of which \$50,000 was payable immediately and \$160,000 in annual installments of \$8,000.

Mr. Smith went on to say that in a discussion with Mr. Armand Asborno, President of Park City Corporation, he (Mr. Smith) had raised a question, in view of the long-term deferment of payment to Mr. Calahan, whether it was proper to consider the total sum of \$160,000 as a present "true cost" figure. Mr. Smith had suggested that it might be more precise to convert this contract to a present value basis. Subsequently, Mr. Asborno had indicated that Park City Corporation would be disposed to make some modification as to the terms of the agreement with the Federal Reserve Bank.

Mr. Smith stated, with respect to the question whether profit was being realized on the sale of the property to the Reserve Bank, that he was satisfied on the basis of his review of the records that Park City Corporation's offering price represented the Corporation's actual investment. He did not regard the question concerning the valuation of the Calahan contract as material in this connection; it was his feeling that this element in the price package had not been carefully considered. Also, he had been favorably impressed by the apparent willingness of Park City Corporation to consider some modification of the final price.

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Mr. Smith noted that he had been joined in his review of the records of the proposed property transaction by Assistant Vice President Griswold of the Federal Reserve Bank of Kansas City; both he and Mr. Griswold had independently reviewed the same records. Mr. Smith also noted that the Kansas City Reserve Bank had retained Arthur Andersen & Co., a public accounting firm, to examine the same material; a representative of the firm had been in the midst of such an examination when Mr. Smith returned to Washington.

Governor Mills commented that he wished to abstain from participating in the decision by the Board on the property acquisition, since he was absent when this matter was discussed recently and did not consider himself familiar enough with the issues involved.

Governors Mills and Robertson then withdrew from the meeting, the latter having stated that he would be agreeable to whatever decision was reached by the other members of the Board.

Governor Shepardson noted that while he and Chairman Martin were in Denver for the directors' meeting they had visited the proposed building site. They were in accord that the location was a desirable one. Chairman Martin had indicated that he favored authorizing the Reserve Bank to acquire the property, subject to a favorable report of findings based on a review of the records such as had been made by Mr. Smith, whose oral report would be supplemented by a written report placed in the Board's files. Governor Shepardson stated that in light of Mr. Smith's report

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he would recommend that approval be given to the property acquisition, with the understanding that the attention of the Federal Reserve Bank would be called to the possibility of further negotiation with Park City Corporation as to the final price based on the factor that had been discovered by Mr. Smith.

Governors Balderston and Mitchell said that they also would favor approval, on the basis recommended by Governor Shepardson.

Thereupon, the acquisition of property at a cost of approximately \$2,291,000 for a new branch building in Denver, as described in a letter of July 6, 1964, from the Federal Reserve Bank of Kansas City, was approved unanimously. It was understood that the Bank's attention would be called to the possibility of further negotiation on the final price in one respect, as recommended by Governor Shepardson.

A copy of the telegram sent to the Kansas City Reserve Bank pursuant to this action is attached as Item No. 6.

Governor Mills having abstained from voting for the reason that he indicated at the beginning of discussion, and in view of Governor Robertson's withdrawal from the meeting before a vote was taken, it was understood that approval of the property transaction was subject to ratification at the next meeting of the Board at which a quorum was present.

Messrs. Smith and Veenstra then withdrew from the meeting.

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Other actions requiring ratification. The actions subsequently described were also taken subject to ratification at the next meeting of the Board at which a quorum was present.

Proposed letter of Comptroller regarding loans on coins. In a distributed memorandum from Mr. Hackley dated July 23, 1964, it was pointed out that Mr. Belin, General Counsel of the Treasury, had advised that the Comptroller of the Currency was proposing to send a letter to all national banks stating in effect that a national bank would not be authorized to make loans secured by coins in an amount exceeding 70 per cent of the face value of the coins. Mr. Belin had inquired as to what the Board's reaction might be to the proposed letter and whether the Board would be prepared to take action of a similar nature.

Following a general discussion, it was understood that Mr. Hexter would inform Mr. Belin that the Board doubted whether action along the lines of the Comptroller's proposed action would substantially relieve the coin shortage. In this connection, it was also understood that there might be sent to Mr. Belin copies of the letters from Chairman Martin to Senator Bible dated June 12 and July 14, 1964, which would cite reasons for this view. Further, Mr. Belin was to be informed that it was at least questionable whether the Board had legal authority to prohibit State member banks from making loans on the security of coins in excess of a certain percentage of the face value of the coins, that in any event the Board was not prepared to issue a letter to State member banks similar to the

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one that the Comptroller proposed to send all national banks, and that the Board questioned the advisability of such a prohibition in the case of national banks.

Federal funds statistics (Items 7 and 8). There had been distributed a memorandum dated July 15, 1964, from Mr. Brill discussing proposed revisions in the program for collection and release of daily Federal funds statistics. Copies of proposed revised forms were attached to the memorandum. The revisions were designed mainly to refine concepts and remove certain inconsistencies in current data collection procedures. The revisions would involve no appreciable increase in reporting burden, either for respondents or Reserve Banks. They would add to the usefulness of the data for the Open Market Account Management and also make them more suitable for research.

The revisions had been cleared by the System Research Advisory Committee. In addition, they had been discussed with the Chairman of the Committee on Research and Statistics of the Presidents' Conference, who felt that the reporting burden and other implications of the revisions were not of a character requiring formal consideration by his Committee or by the Conference of Reserve Bank Presidents as a whole.

Following comments by Mr. Brill on the proposal discussed in his memorandum, the revised program for the collection of Federal funds statistics was approved unanimously, it being understood that clearance

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of the revised forms would have to be obtained from the Bureau of the Budget. A copy of the letter sent to the Budget Bureau is attached as Item No. 7; a copy of the letter sent to the Presidents of all Federal Reserve Banks is attached as Item No. 8.

Publication of monthly figures on System open market transactions.

In a distributed memorandum from Mr. Brill dated July 22, 1964, it was proposed that monthly figures for open market transactions of the Federal Reserve System be published regularly in the Federal Reserve Bulletin. The table would show gross purchases and gross sales of U. S. Government securities by maturity category, similar data for repurchase agreements, and net transactions in bankers' acceptances. These data would be published in the Bulletin with a two-month time lag.

The information would supplement currently available statistics on System operations and would be responsive to a need expressed by the financial community for such information. The proposal had been discussed with the System Account Management, who saw no objection but preferred a modest lag in publication.

In discussion, it was suggested that a one-month time lag in publication of such figures might warrant consideration. The proposal to publish the data on System open market transactions monthly in the Federal Reserve Bulletin was then approved unanimously, with the understanding that the staff would give further thought, in light of experience, to the possibility of publishing the figures with only a one-month time lag.

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The meeting then adjourned.

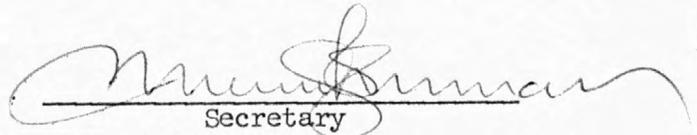
Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of New York (attached Item No. 9) approving the appointment of John C. Quarrier as assistant examiner.

Memoranda recommending acceptance of the resignations of the following persons on the Board's staff:

Cynthia B. Bowlin, Statistical Clerk, Division of Research and Statistics, effective at the close of business July 22, 1964.

Myron B. Jonsberg, Analyst, Division of Data Processing, effective at the close of business July 30, 1964.


Secretary

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

Item No. 1
7/24/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 24, 1964

Board of Directors,
State Bank of Morton,
Morton, Washington.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to August 3, 1964, the time within which admission to membership in the Federal Reserve System may be accomplished by State Bank of Morton, Morton, Washington.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2
7/24/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 24, 1964

Mr. Fred Rice, President,
Sierra Petroleum Co., Inc.,
Wichita, Kansas.

Dear Mr. Rice:

This refers to the request contained in a letter dated June 15, 1964, submitted through the Federal Reserve Bank of Kansas City, for a determination by the Board of Governors of the Federal Reserve System as to the status of Sierra Petroleum Co., Inc., Wichita, Kansas, as a holding company affiliate.

From the information presented, the Board understands that Sierra Petroleum Co., Inc., is engaged in the independent oil and gas drilling and exploration business, and in the grain merchandising and storage business; that it is a holding company affiliate by reason of the fact that it owns or controls 20,035 (80 per cent) of the 25,000 outstanding shares of stock of Stockyards National Bank, Wichita, Kansas; and that it does not, directly or indirectly, own or control any stock of, or manage or control, any other banking institution.

In view of these facts, the Board has determined that Sierra Petroleum Co., Inc., is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933 (12 U.S.C. 221a); and, accordingly, is not deemed to be a holding company affiliate except for the purposes of Section 23A of the Federal Reserve Act and does not need a voting permit from the Board of Governors in order to vote the bank stock which it owns or controls.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. Fred Rice

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If, however, the facts should at any time indicate that Sierra Petroleum Co., Inc., might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make further determination of this matter at any time on the basis of the then existing facts, including additional acquisitions of bank stocks even though not constituting control.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

2584

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3
7/24/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 24, 1964



Mr. Alfred Hayes, President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Hayes:

This refers to Vice President Bilby's letter of July 9, 1964, concerning the revised estimate of costs for the proposed alterations to the gold vault facilities in the main building of the Federal Reserve Bank of New York.

The Board notes without objection the increase in total estimated costs to \$536,641, including a contingency allowance of \$20,000, or \$66,641 in excess of the estimate on which the Board's authorization of September 24, 1963, was based.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 4
7/24/64BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 24, 1964



Mr. Stanley S. Surrey,
Assistant Secretary,
Treasury Department,
Washington, D. C. 20220

Dear Mr. Surrey:

This refers to your letter of June 9, 1964, concerning a provision of a proposed Treasury regulation relating to the taxation of certain types of income of "controlled foreign corporations". The proposal would implement an exception in the Internal Revenue Code, as amended in 1962, for income received by such corporations from the "conduct of a banking, financing, or similar business".

It is noted that the regulation has been adopted and published as Treasury Decision 6734 in Internal Revenue Bulletin No. 1964-25, dated June 22, 1964. The regulation provides that a foreign corporation controlled by a domestic corporation organized under section 25(a) of the Federal Reserve Act (an "Edge corporation" or operating under an agreement with the Board under section 25 of that Act (an "Agreement corporation") is considered to be engaged in a "banking, financing, or similar business" if all the stock (except qualifying shares) of the domestic corporation is owned by a national or State member bank of the Federal Reserve System.

As indicated in your letter, a foreign corporation is considered under the relevant tax law and regulation to be "controlled" by a domestic corporation where more than 50 per cent of the voting stock of the foreign corporation is owned by the domestic corporation.

You asked for a clearer understanding of the manner in which the phrases "international or foreign banking" in section 25 (12 U.S.C. 601) and "international or foreign banking or other financial operations" in section 25(a) (12 U.S.C. 611) would be interpreted. Specifically, you asked: "Would an Edge Act or Agreement company which obtained more than 50 per cent of the voting stock of a foreign subsidiary (other than through some unusual circumstance such as the purchase of such stock to prevent a loss upon a debt previously contracted in good faith by the Edge or Agreement Corporation) which was engaged in manufacturing in wholesale selling, or in some other like business activity, be considered to be engaged in 'international or foreign banking or other financial operations'."

Mr. Stanley S. Surrey

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Edge corporations may be organized under section 25(a) of the Federal Reserve Act only for the purpose of engaging in international or foreign "banking" or other international or foreign "financial" operations. Under the Board's Regulation K (12 CFR 211.10), no Agreement corporation may hold any assets or exercise any power not permissible for an Edge corporation engaged in banking. The acquisition by an Edge or Agreement corporation of more than 50 per cent of the voting stock of a foreign corporation engaged in manufacturing, wholesale selling, or in some similar business activity, normally would reflect an operating or management activity not contemplated by the law and regulation, rather than banking or financing. Accordingly, the acquisition by an Edge or Agreement corporation of more than 50 per cent of the voting stock of a business of the kind mentioned in your question would not be appropriate except in rare instances where the circumstances of some foreign banking or financial operation warranted such acquisition.

It is noted that section 1.954-2(d)(2)(iv) of Treasury Decision 6734 is not applicable unless a national or State member bank owns all of the stock (except qualifying shares) of the Edge or Agreement corporation. In this connection, attention is invited to the fact that three Edge corporations are wholly owned by bank holding companies registered under the Bank Holding Company Act of 1956, instead of by member banks, either national or State member. Moreover, there is nothing in the Federal Reserve Act which specifically restricts ownership of stock in an Edge or Agreement corporation to member banks or registered bank holding companies.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

2587
Item No. 5
7/24/64

S-1921

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 24, 1964.

Dear Sir:

Enclosed is a copy of the Board's letter of this date to Mr. Stanley S. Surrey, Assistant Secretary of the Treasury, in reply to his inquiry in connection with the taxation of subsidiaries of Edge or Agreement corporations. Also enclosed is a copy of Mr. Surrey's inquiry dated June 9, 1964.

It will be appreciated if your Bank will supply copies of the Board's letter to Mr. Surrey to Edge or Agreement corporations having offices in your District.

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

2588

Item No. 6
7/24/64

T E L E G R A M
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

July 24, 1964.

CLAY -- KANSAS CITY

Reurlets July 6 and 20, 1964, Board will interpose no objection to your Bank's purchase of the proposed property for a new branch building in Denver as described in your letter of the 6th and authorizes an expenditure of approximately \$2,291,000. Board wishes to call attention of Reserve Bank to possibility of further negotiation with Park City Corporation on final price based on true cost because of inclusion in cost of property as referred to in your letter of full amount to be paid under Calahan agreement rather than discounted present value of term payments. Understand Assistant Vice President Griswold of your Bank is familiar with possible modification.

(Signed) Merritt Sherman

Sherman

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 7
7/24/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 24, 1964.

Mr. David E. Cohn, Clearance Officer,
Office of Statistical Standards,
Bureau of the Budget,
Washington, D. C. 20503

Dear Mr. Cohn:

Enclosed are two copies of your Form 83 and drafts of revised forms F. R. 716 and F. R. 716a, "Daily Report to the Federal Reserve Banks on Federal Funds Transactions." The Reserve Banks will continue to obtain these reports from approximately 45 member banks accounting for the bulk of Federal funds transactions. No changes in the method of data collection are contemplated. We would like to begin using the revised forms about July 30, 1964.

The modifications are designed to facilitate tabulation of the data and to improve the data's internal consistency. Whereas Item 1 on both forms now includes bank and dealer Federal funds transactions, it would in the future cover only interbank transactions. Transactions with U. S. Government securities and bankers' acceptance dealers would continue to be reported in Item 2 as separate totals. However, banks outside New York would be asked to report all dealer transactions instead of only "one-day" or "demand" transactions, and on an "outstanding" rather than "daily flow" basis as at present. This is already established procedure at the New York banks. Finally, New York banks would report separately the amount of funds acquired from dealers under secured transactions, such as reverse repurchase agreements; these acquisitions are now included with unsecured purchases of funds.

Mr. E. T. Crowder of your office has been advised of these proposals and has already been furnished with copies of the draft forms, which have since been revised slightly, and the self-contained instructions. He has also received an informal memorandum discussing the purposes of the revision.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Enclosures.

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

Item No. 8
7/24/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 27, 1964.

Dear Sir:

The Board has authorized a further revision of the series on Federal funds to be effective beginning August 6, 1964. All respondent banks should be asked to continue reporting on the present form until the effective date of the series revision.

The suggested revision of the report form 716 (716a) with self-contained instructions is attached. This form is being submitted to the Bureau of the Budget and you will be informed of its approval number upon receipt. A sample form for Reserve Banks' reports to the Board, again with self-contained instructions, is also enclosed.

No changes are envisaged in the method of reporting. The sample of reporting banks (see enclosed) is being reduced slightly by the elimination of the four country banks previously reporting. The reduction is being partially offset, however, by the addition of two Chicago banks to the series. Enclosed are proposed draft letters for your guidance in notifying respondent banks of these changes.

Summaries of the reported totals will be distributed to the Reserve Banks and within the Board in a revised confidential release (L.5.6). Public release of the revised data on Federal funds will be made in the near future. In addition, a limited amount of the current data appearing on the L.5.6 release will soon be published on a regular basis.

These revisions have been discussed with Mr. Bopp, Chairman of the Presidents' Conference Committee on Research and Statistics, who felt that the reporting burden and other implications of the revisions were not of a character requiring formal consideration by his Committee or by the Conference of Presidents as a whole.

Very truly yours,

Kenneth A. Kenyon
Kenneth A. Kenyon,
Assistant Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 9
7/24/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 24, 1964

CONFIDENTIAL (FR)

Mr. Howard D. Crosse, Vice President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Crosse:

In accordance with the request contained in Mr. Bilby's letter of July 20, 1964, the Board approves the appointment of John C. Quarrier as an assistant examiner for the Federal Reserve Bank of New York, effective July 28, 1964.

It is noted that Mr. Quarrier is indebted to The Meadow Brook National Bank, New York, New York, and to The Emigrant Industrial Savings Bank, New York, New York, a nonmember bank. Accordingly, the Board's approval of the appointment of Mr. Quarrier is given with the understanding that he will not participate in any examination of either bank to which his indebtedness remains unliquidated.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.