

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, September 1, 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 1/
Mr. Mitchell
Mr. Daane

Mr. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
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. Conkling, Assistant Director, Division of Bank Operations
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Smith, Assistant Director, Division of Examinations
Mr. Sprecher, Assistant Director, Division of Personnel Administration
Mr. Langham, Assistant Director, Division of Data Processing
Mr. Spencer, General Assistant, Office of the Secretary
Mr. Forrestal, Attorney, Legal Division
Mr. McClintock, Supervisory Review Examiner, Division of Examinations
Mr. Veenstra, Chief, Financial Statistics Section, Division of Data Processing

1/ Entered meeting at point indicated in minutes.

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Discount rates. The establishment without change by the Federal Reserve Banks of Atlanta and Minneapolis on August 28, 1964, and by the Federal Reserve Bank of Boston on August 31, 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.

Branch application (Item No. 1). Unanimous approval was given to a letter to First National City Bank, New York, New York, granting permission to establish a branch in Port-of-Spain, Trinidad and Tobago. A copy of the letter is attached as Item No. 1.

Mr. Forrestal then withdrew from the meeting.

Report on competitive factors (Albany-Oneonta, New York). There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The Citizens National Bank and Trust Company of Oneonta, Oneonta, New York, into National Commercial Bank and Trust Company, Albany, New York.

Agreement having been expressed with a change in the wording of the conclusion suggested by Governor Mitchell, the report was approved unanimously for transmittal to the Comptroller with the conclusion reading as follows:

The proposed merger of National Commercial Bank and Trust Company, Albany, New York, and The Citizens National Bank and Trust Company, Oneonta, New York, would eliminate the competition existing between the two banks, further strengthen the dominant position of National Commercial Bank and Trust Company in Otsego County, and place the smaller remaining bank in Oneonta at a disadvantage. The effect on competition would be clearly adverse.

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Mr. McClintock then withdrew from the meeting.

Collection of bank condition data (Items 2 and 3). There had been distributed under date of August 27, 1964, a draft of letter to Chairman Barr of the Federal Deposit Insurance Corporation with regard to the use of a short form report of condition for the 1964 fall call date. The draft had been prepared in response to a letter of August 18, 1964, from Chairman Barr in which he indicated that the Corporation planned to print a form for the fall call that would be identical with the statement used for the April 15, 1964, call date and requested to be informed whether the use of the short form would be consistent with the intentions of the Federal Reserve. The draft reply stated that the Federal Reserve would use a call report form identical with that used in April. The letter also would state that the Federal Reserve had no plans to collect a slip-sheet reconciliation statement from national banks even if the form to be used by the Comptroller of the Currency for national banks was not compatible with the State forms.

There likewise had been distributed a draft of letter to the Comptroller of the Currency, which would refer to the letter from Chairman Barr and enclose a copy of the reply to him. The proposed letter would indicate that a decision on tabulating member bank data from the fall call had been left unsettled and that use of a slip-sheet to achieve compatible banking data for all member and all insured banks, while worthwhile for midyear data, probably would not be justified by

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the statistical value of fall call report data. The draft also contained paragraphs requesting advice on plans of the Comptroller for the format of the national bank report form, so that a determination might be made on whether to commit personnel and machine resources to tabulating national and State member bank reports, and commenting that staff efforts to draft a uniform report form and procedure on which State and Federal bank supervisory agencies could agree were progressing, with the hope that agreement could become effective in time for the December call date.

There being no question regarding the draft of reply to Chairman Barr, discussion focused on the draft of letter to the Comptroller. It was suggested that the proposed letter, which had been prepared principally with the thought of placing on record the efforts of the Federal Reserve to negotiate a compatible condition report form, served mainly to debate unnecessarily the question of tabulating the fall call. It was generally agreed that the letter could be shortened and should focus on the fact that the tabulation of the fall call did not warrant the use of reconciliation statements or elaborate editing or tabulation procedures, although the Board would be willing to undertake the tabulation if the Comptroller were to include certain memorandum items on the national bank form.

The letter to the Comptroller was then approved unanimously in a form reflecting the changes agreed upon during the discussion. A copy

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of the letter, in the form transmitted to the Comptroller, is attached as Item No. 2. A copy of the letter to Chairman Barr, as approved, is attached as Item No. 3.

Messrs. Conkling, Langham, and Veenstra then withdrew from the meeting.

Examination of New York Reserve Bank (Item No. 4). There had been circulated to the Board the report on the examination of the Federal Reserve Bank of New York made by the Board's examining staff as of May 22, 1964. The usual accompanying memoranda also had been circulated, and a summary memorandum from the Division of Examinations dated August 26, 1964, had been distributed.

At the Board's request, Mr. Smith reviewed the information developed through the examination, his comments being based on the material that had been circulated to the Board.

In discussion, Governor Mills observed that the examination report seemed to give a "clean bill of health" to the expenditures made by the Bank, the report containing a statement to the effect that all expenditures had been reviewed and none was considered worthy of comment. He thought a policy had been agreed upon by the Board that if there was a shadow of doubt as to the appropriateness of an expenditure, the item would be noted for the Board as a matter of information. It seemed to him that it would be unusual if a Reserve Bank of the size and with the scope of operations of New York could function without some expenditure that should be reported in this manner.

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Mr. Smith noted that the Division of Examinations was endeavoring to compile a representative sampling of types of expenditures at the various Reserve Banks that might be of a questionable nature. When an adequate cross section was developed, a memorandum going into the subject in some depth was to be submitted to the Board for the purpose of ascertaining the Board's views as to types of expenditures that might be considered inappropriate. Insofar as the New York examination was concerned, the Board's examiners had reviewed all expense vouchers and had followed the practice of relating such expenditures to outstanding letters from the Board. In their judgment, there were no expenditures falling outside the scope of such letters.

Governor Mills then said it was his recollection that some time ago the Board had requested that a new approach be developed regarding the reporting of expenditures. There had been a clear indication, he thought, that the Board wished to scrutinize Reserve Bank expenditures more closely.

In further discussion, the Board indicated that it felt the half dozen most recent Reserve Bank examinations would afford a sufficient sampling from which to compile categories of expenditures for discussion of their appropriateness. Accordingly, it was understood that the Division of Examinations would prepare an analysis on such basis. It was also understood, in accordance with a suggestion made by Chairman Martin, that a listing of expenditures of the New York Reserve Bank

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noted by the examiners during their review of vouchers at the recent examination would be distributed to the members of the Board, it being understood that the examiners had concluded that such expenditures did not warrant criticism in the report of examination.

As discussion proceeded, Mr. Smith responded to certain questions about verification procedures used during the New York examination. At the instance of Governor Mitchell, there followed a discussion relating to the ownership of bank stock by Reserve Bank employees.

In its letter to the Reserve Banks (S-1907) of February 10, 1964, the Board had reiterated the general principle that officers and employees of a Federal Reserve Bank should refrain from placing themselves in any position that might embarrass the Bank or the Federal Reserve System as a whole in the conduct of its operations or result in any questions being raised as to the independence of an individual's judgment or his ability to perform satisfactorily all of the duties of his position with the System. That letter had referred specifically to the ownership of bank stocks and had expressed the view that it would be inappropriate for a member of the staff of a Reserve Bank to purchase stock of a bank or an affiliate thereof, except possibly where the actual relationship of the affiliate to the bank was remote. The letter further stated that officers and employees occupying responsible positions and holding or acquiring stock of banks or affiliates should dispose of it as promptly as practicable without causing undue hardship.

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Question was raised specifically at this meeting about bank stock owned by Mr. Philip Vachon, a supervisory employee in the Foreign Department who had been acquiring such stock over a long period of time, reportedly to supplement his retirement benefits. Through established reporting procedures, he had periodically informed the Bank regarding details of his holdings. The Reserve Bank had reviewed the situation in light of the recent Board letter and concluded that to require Mr. Vachon to dispose of his holdings now would be in the nature of "undue hardship."

The incident was discussed at some length against the background of the recent Board letter, which according to Mr. Smith had led to a general review by the Reserve Banks--including New York--of outstanding cases of bank stock ownership and was undoubtedly resulting in the issuance of firmer instructions by the Reserve Banks pertaining to the acquisition of such stock. The New York Bank was understood to have made a rather intensive review following receipt of the Board's letter, but in the case of Mr. Vachon the Bank decided that a requirement for disposition would involve undue hardship. In the discussion, certain extenuating circumstances were recognized by the Board, including the nature of Mr. Vachon's duties with the Bank and the fact that he had reported his holdings periodically, without objection on the part of Bank management. Nevertheless, there was some feeling within the Board that such a situation presented certain aspects of vulnerability, at

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least from a public relations standpoint. At the conclusion of the discussion, Chairman Martin noted that the record of this meeting should contain a notation that this point had been raised; also, the New York Bank should be informed by letter of the Board's continued concern about possible conflicts of interest, with reference made to the responsibility of the Reserve Banks for taking all reasonable measures to assure that persons in their employ avoid any relationships that might give rise to questions of such character. There was general agreement with the comments of the Chairman. A copy of the letter subsequently sent to the Federal Reserve Bank of New York is attached as Item No. 4.

It was agreed that there were no other matters disclosed by the examination that called for action on the part of the Board at this time.

Mr. Sprecher then withdrew from the meeting.

Office held by proposed Class C director. There had been distributed a memorandum dated August 28, 1964, from the Legal Division in connection with the question whether the service of a proposed Class C director of the Federal Reserve Bank of Boston, Mr. James McCormack, as Chairman of the Board of Directors of the Massachusetts Bay Transportation Authority would be contrary to the Board's resolution of December 23, 1915, prohibiting the holding of political or public office by Reserve Bank directors and officers.

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Pursuant to the understanding at the Board meeting on August 19, 1964, a telegram had been sent to Chairman Canham of the Federal Reserve Bank of Boston stating that Mr. McCormack had been appointed as a Class C director for the unexpired portion of the term ending December 31, 1965, to succeed Mr. John T. Fey. The usual type of telegram tendering the appointment had been sent to Mr. McCormack under date of August 20, 1964. In discussion with President Ellis of the Boston Reserve Bank prior to accepting the appointment, Mr. McCormack had raised a question concerning his eligibility for the Class C directorship in view of the fact that he had recently accepted appointment by the Governor of Massachusetts as Chairman of the Board of the Transportation Authority.

The memorandum of August 28 noted that the Massachusetts Bay Transportation Authority was established in 1964 to enlarge and increase the activities of an earlier organization known as the Boston Metropolitan Transit Authority. The Transportation Authority was managed by a board of five directors appointed by the Governor. The Chairman of the Authority, as designated by the Governor, received an annual salary of \$10,000; the other directors received \$7,500 per annum. The Authority was authorized to hold, operate, and manage the mass transportation facilities and equipment to be acquired; to employ officers and employees and set their compensation; to enter into contracts and leases with others; to provide mass transportation services within the area constituting the Authority; and to issue bonds, notes, and other evidences of indebtedness. In order

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to meet the expenditures necessary to carry out the provisions of the law, the Authority could issue bonds subject to various conditions and stipulations.

Following discussion, it was agreed unanimously that Mr. McCormack's service with the Massachusetts Bay Transportation Authority was of a type that would not be contrary to the spirit and purpose of the Board's 1915 resolution. It was understood that the Board's view on this matter would be communicated to Mr. McCormack through Chairman Canham of the Boston Reserve Bank.

Messrs. Molony, Brill, Kiley, and Smith then withdrew from the meeting and Messrs. Shay, Assistant General Counsel, and Furth, Adviser, Division of International Finance, entered the room.

International Banking Corporation. At the Board meeting on July 24, 1964, there was preliminary discussion of a proposed reply to a letter of June 24, 1964, from Chairman James S. Rockefeller of First National City Bank, New York, New York, regarding certain questions that had arisen in connection with the agreement under which International Banking Corporation, a wholly-owned subsidiary of First National City Bank, was operating pursuant to section 25 of the Federal Reserve Act. At the conclusion of the discussion on July 24, the Board deferred action on the matters at issue and requested that additional information be furnished as to the facts and reasoning involved.

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There now had been distributed a memorandum from the Division of Examinations dated August 21, 1964. It noted that subsequent to the July 24 meeting a letter of August 4, 1964, had been received from Vice President George C. Scott of International Banking Corporation requesting reconsideration of the conditions in the Board's letter of July 23, 1964, granting consent to acquire shares of Banque de l'Afrique Occidentale. The memorandum discussed at some length not only the matter raised in Mr. Scott's letter but also the proposed revision of the agreement under which International Banking Corporation was operating and the restrictions on loan operations of its foreign banking subsidiaries, particularly a Bahamian trust company. The following three proposals were suggested for consideration by the Board:

1. A revised agreement with International Banking Corporation in order to conform to Regulation K (Corporations Engaged in Foreign Banking and Financing under the Federal Reserve Act), as revised effective September 1, 1963.
2. An exclusion from restrictions on loans made by First National City Trust Company (Bahamas) Limited in the Bahamas in the currency of that country. No objection would be taken to loans granted in excess of the limits of section 211.9(b) of Regulation K insofar as they related to the obligations of any person for money borrowed where such obligations were fully secured by the hypothecation of funds on deposit in the same currency in the trust company.
3. A reply to International Banking Corporation's letter of August 4, 1964.

On proposal numbered 1, the memorandum noted that provisions of the agreement under which the Corporation was currently operating

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had not been changed since the revised Regulation K was adopted effective September 1, 1963. Various requests had been received from the Corporation, and requirements in connection with consents granted had been considered in the light of similar actions with respect to corporations operating under section 25(a) of the Federal Reserve Act. In order that requests relating to certain subsidiaries of International Banking Corporation might be processed expeditiously and activities permitted to section 25(a) corporations might be available to International Banking Corporation, the Board's staff had suggested to the Corporation that consideration be given to revising the agreement under which it operated so as to bring it into conformity with Regulation K to the extent applicable.

The memorandum noted, with respect to the second proposal, that questions had been raised during the discussion at the Board meeting on July 24 as to the need for permitting any exception on the size of loans granted by the Bahamian trust company, since First National City Bank had a direct branch in Nassau. This suggested that the reasons for exceptions that had been made from the usual restrictions in relation to loans in local currency of The Bank of Monrovia in Liberia, The First National City Bank of New York (South Africa) Limited in South Africa, and The Mercantile Bank of Canada, as well as the Mercantile Trust Company in Canada, did not exist in this instance. The memorandum pointed out, however, that there might be reasons why clients would prefer to have

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accounts with a Bahamian-chartered trust company rather than with a direct branch of a United States bank. It was suggested, therefore, that the Board consider modifying its consent so as to give International Banking Corporation the same exclusion with respect to loans of the Bahamian trust company as had been given to International Banking Corporation's subsidiaries in South Africa, Liberia, and Canada.

As to the third proposal, conditions in the Board's letter granting consent to the proposed purchase and holding of shares in Banque de l'Afrique Occidentale were enumerated, and the objections to certain of those conditions, as stated in the letter from Mr. Scott, were cited. In particular, Mr. Scott stated that the following conditions presented obstacles that were believed to be insurmountable: (1) that International Banking Corporation would not hold any shares of Banque de l'Afrique Occidentale if the latter at any time failed to restrict its activities to those permissible to a corporation in which a corporation organized under section 25(a) could purchase and hold stock, or if Banque de l'Afrique established any branch or agency or took any action or undertook any operation in France or elsewhere, in any manner, which at the time would not be permissible if Banque de l'Afrique were a corporation organized under section 25(a); (2) that, when required by the Board of Governors, International Banking Corporation would cause Banque de l'Afrique to permit examiners selected or auditors approved by the Board to examine the bank and to furnish the Board such

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reports as it might require from time to time; (3) that any share acquisitions or dispositions by Banque de l'Afrique be reported under section 211.8(d) of Regulation K in the same manner as if the bank were a corporation organized under section 25(a) of the Federal Reserve Act.

Mr. Scott had suggested that the conditions be modified along the lines of those prescribed by the Board in granting consent for International Banking Corporation to acquire 16-2/3 per cent of the shares of M. Samuel & Co. Limited, London. With the exception of a requirement that there be no direct or indirect office or representative in the United States, the conditions prescribed with respect to the shares of M. Samuel & Co. were essentially those contained in the statute or incorporated in Regulation K, as amended. The Federal Reserve Bank of New York had concluded that the objections mentioned by Mr. Scott merited consideration. The New York Reserve Bank felt that unless an Edge or agreement corporation acquired more than 50 per cent of the voting stock of a foreign bank, or had effective control over the institution, which in this case would be possible only if the balance of the capital stock were widely held, conditions such as those fixed in this case should not be imposed.

In commenting on this subject, the memorandum expressed the belief, notwithstanding the New York Reserve Bank's views, that the general position taken in the Board's consent letter of July 23, 1964,

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to purchase shares of Banque de l'Afrique Occidentale was appropriate where 40 per cent of the shares of a foreign bank were acquired and that no substantial modification was warranted.

At the Board's request, Mr. Solomon commented upon the matters discussed in the memorandum of August 21. In the course of his remarks, he reviewed the three proposals suggested for the Board's consideration, but he focused on the proposed reply to the letter of August 4 from International Banking Corporation, which stated that the conditions imposed in the Board's consent made it impossible to conclude arrangements for the proposed acquisition of shares. International Banking Corporation's partners were French, and the Corporation had expressed the view that the French Government would prohibit it from participating in the organization of Banque de l'Afrique Occidentale if that bank had to operate under conditions such as were now being imposed by the Board. Therefore, International Banking Corporation requested that the Board reconsider the conditions prescribed when the consent was granted and asked that the restrictions be no more onerous than those imposed when the Board allowed it to purchase an interest in M. Samuel & Co.

Mr. Solomon went on to say that he had given considerable thought to the restrictions imposed in the Board's consent and had come to the conclusion that the Board should reconsider them. He noted that the Bank Holding Company Act used 25 per cent ownership of the voting shares of a bank as a rule for determining "control." As a practical matter,

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25 per cent ownership might well be considered to constitute control, Mr. Solomon agreed. If this was not technical control, it did provide enough influence to have a profound effect on the operations of an organization. In his view, the 25 per cent rule was sound for use in a domestic situation, where the principal concern was with competitive ramifications. However, investments in foreign banks essentially involved considerations of soundness, not considerations of competition.

Mr. Solomon went on to note that the Federal Reserve Bank of New York, in reviewing the objections of International Banking Corporation to the conditions contained in the Board's consent, felt strongly that unless an Edge or agreement corporation acquired more than 50 per cent of the voting stock of a foreign bank, or had effective control over the institution, conditions such as those fixed in the Banque de l'Afrique case should not be imposed. International Banking Corporation would be acquiring 40 per cent of the shares of Banque de l'Afrique, and no doubt had thoroughly assessed the soundness of the proposition. It seemed to him, Mr. Solomon indicated, that where an Edge or agreement corporation was making an investment of 25 to 50 per cent in a foreign bank, the Board should reconsider its conditions. The reasoning he employed might in fact extend to investments beyond 50 per cent, but he would not pursue that phase of the matter for the moment.

Following Mr. Solomon's remarks, Mr. Furth commented in a somewhat different vein. The general tenor of his remarks indicated a belief

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that there was need for restrictions to be imposed, even agreeing that competitive considerations in the case of an investment in a foreign banking institution were not as important as in a domestic situation. The factor of soundness entered in to an important extent, he felt, and the Board should maintain a framework of conditions sufficient to insure the adequate exercising of its responsibilities as a supervisory agency. Keynoting Mr. Furth's argument was the view that a logical case could hardly be made, when considering what conditions should be imposed, for distinguishing between 25 per cent ownership of shares and 50 per cent ownership; as a practical matter, anything over 25 per cent ownership no doubt carried with it an ability on the part of the investing U. S. corporation to have knowledge of the foreign corporation's operations and an influence in its policies and affairs. He did feel, however, that some distinction could be made between the situation in the Banque de l'Afrique case and the situation in the M. Samuel case, which involved a relatively small participation in a long-established British firm.

Mr. Solomon replied, in effect, that in his view conditions such as had been prescribed in the Banque de l'Afrique case did not assure the soundness of operations to which Mr. Furth had referred. As he saw it, such conditions were essentially irritants; they simply gave the impression of the long arm of the United States Government being extended into a company the majority of whose stock would be French owned.

Governor Shepardson entered the meeting at this point.

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In further discussion, Governor Mitchell commented that where an American bank was involved in an operation abroad, the public tended to identify the foreign operation not only with the United States bank but with the United States Government, and to look for certain standards. He was of the view that enough control should be exercised to insist on certain standards of operation. But here a difficult problem could arise, because judgments could differ from case to case. One might say that if International Banking Corporation owned 40 per cent of the stock of a foreign bank, the prestige of the parent institution, First National City, was involved. But another case, like M. Samuel, might be regarded as simply involving a minority investment. The question was where to draw the line. As he looked at the situation, he concluded that a list should be prepared for the Board's information that would indicate the types of conditions imposed on ownership in various foreign banking corporations. The object would be to determine which types of conditions seemed to be addressed to assuring the degree of supervision that the Congress apparently felt, in formulating the statute, should be exercised over the foreign operations of U. S. banks.

Governor Mills observed that the Board's fundamental responsibility was to see that Edge and agreement corporations were operated in ways that would not expose shareholders and depositors of the parent organizations to undesirable risks. Through examination and inspection

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of the Edge and agreement corporations, he thought it should be possible to obtain an adequate insight into such operations. It seemed to him that in the present case, for example, the records and reports available through First National City Bank and International Banking Corporation should be sufficient to give the Board adequate information, and that the Board should be careful about splitting hairs based on percentage of ownership as a criterion for deciding whether it should insist on reserving the right of access to the books of foreign banks. For this reason he was attracted to the position of Mr. Solomon despite his basic reservations about the eventual results of the activities being pursued by Edge and agreement corporations around the world.

After Mr. Goodman had commented on the guidelines heretofore applied in formulating conditions pertaining to various foreign stock acquisitions, which he felt had been applied with a reasonable degree of consistency, and on the nature of practices followed in the examination of Edge and agreement corporations, Chairman Martin noted that the issue before the Board today typified the general questions in this area that had been debated by the Board, in one form or another, over an extended period of time. In his own thinking, he started with an assumption that normally it would be preferable for an American bank, rather than competing international banking interests, to have the opportunity to make an investment if this could be worked out in a reasonable way. In recent years, he felt that American banks had lost out on a number of

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such opportunities because the difficulties of regulation were too great. Within the Board, however, this had appeared to be a minority view. The difference between 25 per cent and 50 per cent ownership was, to his mind, a very minor point. Essentially, the Banque de l'Afrique venture was, to some extent at least, a speculative operation that First National City wanted to go into after considerable study. He doubted whether the conditions under discussion were worth much as far as assurance of soundness of operations was concerned.

Governor Mitchell indicated he was not prepared at this juncture to make a decision on the particular case at hand. He reiterated that he thought a memorandum should be prepared that would list restrictions imposed in connection with the acquisition of shares of foreign banks in various cases; that list could also cite the general restrictions imposed by Regulation K. The matter could then be considered further from the standpoint of general Board policy.

Governor Daane stated that he, too, thought the Board should take a look at the restrictions on an over-all basis with a view to deciding what was being accomplished by them. It might be, as the Chairman had suggested, that the whole framework should be liberalized.

After discussion of the urgency of the Banque de l'Afrique matter, it was understood that a memorandum of the type suggested by Governor Mitchell would be prepared as a basis for further consideration of the problem at tomorrow's meeting of the Board.

The meeting then adjourned.

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Secretary's Notes: A letter was sent on August 31, 1964, to First National City Bank, New York, New York, acknowledging receipt of notice of its intent to establish a branch in the Vallejo District of Mexico City, Mexico. (The Board approved the establishment of such a branch on July 25, 1963, but the time limit for opening the branch expired on August 1, 1964.)

A letter was sent today to The Chase Manhattan Bank, New York, New York, acknowledging receipt of notice of its intent to establish an additional branch in the City of Panama, Republic of Panama, to be located at the corner of Via Bolivar (Trans-Isthmian Highway) and Fifth Street in the Industrial Development Area of Betania District of the City of Panama.

Acting in the absence of Governor Shepardson, Governor Robertson authorized on behalf of the Board on August 26, 1964, travel to Ottawa, Canada, during the period September 10-11, 1964, by Clayton Gehman, Chief, Business Conditions Section, Division of Research and Statistics, for the purpose of meeting with representatives of the Dominion Bureau of Statistics and the Bank of Canada.

Governor Shepardson approved on behalf of the Board on August 31, 1964, the following items:

Letter to the Federal Reserve Bank of New York (attached Item No. 5) approving the appointment of John J. Goggins as examiner.

Memoranda recommending the acceptance of resignations of the following persons on the Board's staff, effective as of the dates indicated:

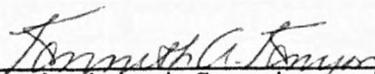
<u>Name and title</u>	<u>Division</u>	<u>Date</u>
	<u>Legal</u>	
Melvin Goldstein, Summer Law Clerk		September 4, 1964

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<u>Name and title</u>	<u>Division</u>	<u>Date</u>
<u>Research and Statistics</u>		
Joanne L. Jessup, Statistical Clerk-Typist		August 25, 1964
James L. Kichline, Summer Research Assistant		September 3, 1964
Edward H. Rastatter, Summer Research Assistant		September 11, 1964
Alan K. Severn, Summer Research Assistant		September 11, 1964
James J. Sullivan, Summer Research Assistant		September 11, 1964

Governor Shepardson today approved on behalf of the Board a memorandum from the Division of Data Processing dated August 28, 1964, requesting authorization for payment of approximately \$3,000 to the Bureau of the Census this fall for computer processing seasonal adjustments of bank debits for Standard Metropolitan Statistical Areas. This action included authorization of the resulting budget overexpenditure.


 Assistant Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
9/1/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 1, 1964.



First National City Bank,
399 Park Avenue,
New York, New York, 10022

Gentlemen:

The Board of Governors of the Federal Reserve System grants its permission to First National City Bank, New York, New York, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish a branch in the City of Port-of-Spain, Trinidad and Tobago, and to operate and maintain such branch subject to the provisions of such Section and of Regulation M.

Unless the branch is actually established and opened for business on or before September 1, 1965, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted will automatically terminate on that date.

Please inform the Board of Governors, through the Federal Reserve Bank of New York, when the branch is opened for business, furnishing information as to the exact location of the branch. The Board should also be promptly informed of any future change in location of the branch within the City of Port-of-Spain.

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.)



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 2
9/1/64

OFFICE OF THE CHAIRMAN

September 2, 1964

The Honorable James J. Saxon,
Comptroller of the Currency,
Room 3120, Main Treasury,
Washington, D. C. 20220.

Dear Jim:

The enclosed letter was prepared in response to Chairman Barr's letter of August 18. It is our understanding that a similar letter was also addressed to you. As you will note from the attached letter, Mr. Barr has been informed that the Federal Reserve will also use a short form condition report for the fall call.

No decisions have as yet been made as to tabulating member bank data from the call, particularly since the form for national member banks is not compatible with that for State member and nonmember banks. The limited statistical value of the fall call does not warrant the use of slip-sheet reconciliation statements or elaborate editing or tabulating procedures. However, useful tabulations of all member and all insured banks could be made, without complex and inefficient processing procedures and recourse to a slip-sheet reconciliation, by the inclusion of a minimum number of memoranda items on the national bank form. Items to reflect (1) the inclusion of securities purchased under resale transactions and the exclusion of securities sold under repurchase transactions, (2) corporate stock holdings included in other assets, and (3) the amount of mortgages and other liens netted against the fixed asset item would make the reports entirely compatible and allow tabulation of summary statistics with a minimum of effort and expense.

Sincerely yours,

A handwritten signature in cursive script that reads "Bell".

Wm. McC. Martin, Jr.

Enclosure



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 3
9/1/64

OFFICE OF THE CHAIRMAN

September 2, 1964

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

Dear Joe:

This is to confirm the understanding expressed in your August 18 letter that the Federal Reserve also plans to use a short form report of condition for the fall call date. We will print and send to the Federal Reserve Banks for distribution to State member banks a call report form identical with that used as of April 15, 1964.

We have no plans to collect a slip-sheet reconciliation statement from national member banks even if the form to be used by the Comptroller of the Currency for national banks is not compatible with the State forms. Plans for tabulation of all member bank data from the fall condition reports have not yet been settled. The expense of such tabulations must be weighed against the potential value of the statistical output from an incompatible fall call before a final decision is made. A letter to the Comptroller of the Currency on this subject is attached.

Sincerely yours,

A handwritten signature in cursive script that reads "Bell".

Wm. McC. Martin, Jr.

Enclosure.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 4
9/1/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 4, 1964.



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

Dear Mr. Hayes:

In its letter of February 10, 1964 (S-1907) the Board reiterated the general principle that "officers and employees of a Federal Reserve Bank should refrain from placing themselves in any position that might embarrass the Bank or the Federal Reserve System as a whole in the conduct of its operations or result in any questions being raised as to the independence of the individual's judgment or his ability to perform satisfactorily all of the duties of his position with the System." Subparagraph 5. of that letter specifically referred to the ownership of bank stocks, as follows:

"5. It would be inappropriate for a member of the staff of a Reserve Bank to purchase stock of a bank or an affiliate thereof (except possibly where the actual relationship of the affiliate to the bank is remote); officers and employees occupying responsible positions and holding or acquiring stock of banks or affiliates should dispose of it as promptly as is practicable without causing undue hardship."

Among the matters considered by the Board while reviewing the examination of the Federal Reserve Bank of New York as at May 22, 1964, were the administrative measures taken in your Bank in the light of the above paragraph 5., including in particular an exception made in the case of certain bank stocks owned by Mr. Philip Vachon. The Board's understanding of the Vachon matter may be summarized as follows: Mr. Vachon is a supervisory employee of the Foreign Department; he has been acquiring bank stocks over a long period of time to supplement his retirement benefits; through established reporting procedures, he has periodically informed the Bank regarding the details of his holdings; in view of the foregoing circumstances, the Reserve Bank management felt that now to require

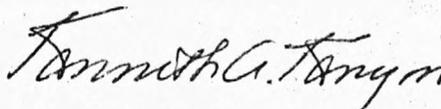
Mr. Alfred Hayes

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Mr. Vachon to dispose of his holdings would be in the nature of "undue hardship," and concluded to allow him to retain the shares he has acquired to this time.

The Board recognized the special considerations which caused your Bank to make an exception with regard to Mr. Vachon's present holdings. At the same time, it felt you should know that there was again emphasized during the discussion of the subject the Board's concern about possible conflicts of interest and the responsibility of the Reserve Banks for taking all reasonable measures to assure that persons in their employ avoid any relationships that might give rise to questions of such character.

Very truly yours,



Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 5
9/1/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 1, 1964.

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 your letter of August 27, 1964, the Board approves the appointment of John J. Goggins, at present an assistant examiner, as an examiner for the Federal Reserve Bank of New York. Please advise the salary rate and the effective date of the appointment.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

