

Minutes for September 2, 1964.

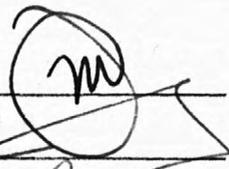
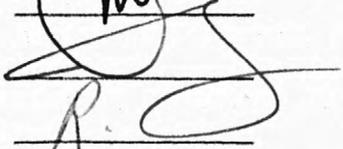
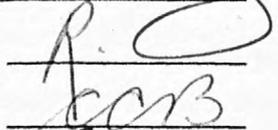
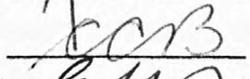
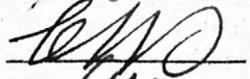
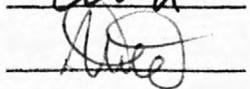
To: Members of the Board

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 Wednesday, September 2, 1964. The Board met in the Board Room at
10:00 a.m.

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

Mr. Kenyon, 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. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research and
Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Partee, Adviser, Division of Research and
Statistics
Mr. Furth, Adviser, Division of International
Finance
Mr. Conkling, Assistant Director, Division of
Bank Operations
Mr. Daniels, Assistant Director, Division of
Bank Operations
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Smith, Assistant Director, Division of
Examinations
Mr. Spencer, General Assistant, Office of the
Secretary
Mr. Forrestal, Attorney, Legal Division
Mr. Sanders, Attorney, Legal Division
Mr. McClintock, Supervisory Review Examiner,
Division of Examinations
Mr. Gedanken, Statistician, Division of Data
Processing

9/2/64

-2-

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 First National City Bank, New York, New York, granting permission to establish a branch in Dublin, Ireland.	1
Letter to United Corporation, Denver, Colorado, granting a determination exempting it from all holding company affiliate requirements except those contained in section 23A of the Federal Reserve Act.	2

Report on competitive factors (Englewood-Hackensack, New Jersey).

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 Hackensack Trust Company, Hackensack, New Jersey, into Citizens National Bank of Englewood, Englewood, New Jersey, under the charter of Citizens National and new title of Citizens National Bank. The conclusion in the report read as follows:

The proposed merger of Citizens National Bank of Englewood and Hackensack Trust Company would eliminate some existing competition and potential for keener competition between the two banks, and increase the concentration of banking resources in Bergen County. Consummation of the proposal would increase the ability of the continuing institution to offer stronger competition to the larger banks in New Jersey as well as New York without having significantly adverse competitive effects.

The report was approved unanimously for transmittal to the Comptroller.

Mr. McClintock then withdrew from the meeting.

9/2/64

-3-

Sorting of unfit Federal Reserve notes (Item No. 3). There had been distributed under date of August 28, 1964, a report from the Division of Bank Operations on a study of the problems involved in avoiding the necessity to sort unfit \$1 Federal Reserve notes by Banks of issue. Attached was a covering memorandum from Mr. Farrell dated August 28, 1964, summarizing the contents of the report.

The report discussed, among other things, a finding that none of the proposed formulas for allocating redemption credit on the basis of issues stood up under testing, but that a proposal--that could not be tested--to base redemption credit for \$1 bills on issues of such bills during the previous year could be adopted with the probability of minimal error effect on Federal Reserve Bank note liabilities.

The report also discussed developments with respect to proposed legislation drafted by the Treasury Department that would (1) provide for the destruction of unfit Federal Reserve notes under procedures and at locations designated by the Secretary of the Treasury, and permit allocation of credit for destroyed notes among the Reserve Banks as determined by the Board; (2) transfer the duties and functions now performed by the Comptroller of the Currency in regard to Federal Reserve notes to the Secretary of the Treasury; and (3) repeal the requirement that the System maintain a gold redemption fund on deposit with the Treasury Department. It was noted that when the proposed legislation was being drafted the proposed changes appeared to meet with the satisfaction

9/2/64

-4-

of the Comptroller of the Currency, but that this satisfaction was no longer evident. It was understood that the Treasury was reluctant to submit the proposed legislation to Congress without having first obtained the endorsement of the Comptroller. The report indicated that some changes might be proposed, possibly including a suggestion that personnel of the Office of the Comptroller be stationed at Reserve Banks to handle currency redemption and destruction.

The report went on to note that the many uncertainties attending this whole matter had been discussed with the Fiscal Assistant Secretary of the Treasury, with indication given that the Treasury was inclined to defer any action on the proposed legislation until late this year. By that time, it was hoped that the System and the Treasury could agree on the best course to be followed in case the bill, as originally proposed, had to be abandoned, and that any new proposal could be ready to send to Congress when it reconvened next year.

The Division of Bank Operations recommended that the August 28 report be sent to all Federal Reserve Banks with a request that it be discussed at the meeting of the Conference of Presidents on September 28, 1964, and that the Board subsequently be advised of the views of the Presidents with respect to (1) whether it would seem desirable to suggest any changes in the proposed legislation that the Treasury had drafted and was now holding; (2) the possibility of having personnel of the Office of the Comptroller stationed in the Federal Reserve Banks to

9/2/64

-5-

assume responsibilities for the verification and destruction of unfit Federal Reserve notes; and (3) the procedures that might be followed in allocating redemption credit for the unfit \$1 bills that were accumulating in increasing numbers.

During a discussion following comments by Mr. Daniels on the information presented in the report of August 28, the view was expressed that it would be unwise for the System to take the lead in pressing for legislation at this juncture.

Unanimous approval was then given to the recommendation that the report be submitted to the Presidents' Conference for its views. A copy of the letter transmitting the report to the Presidents of the Federal Reserve Banks is attached as Item No. 3; a copy of the report, as transmitted with the letter, has been placed in the Board's files.

Messrs. Smith and Gedanken then withdrew from the meeting.

Regulation of trading in bank securities. At the Board meeting on August 20, 1964, there was approved for publication in the Federal Register for comment a partial draft of a new Regulation F (Securities of Member State Banks) and a draft registration statement (Form F-1). The new proposed regulation and registration form had been prepared in connection with implementing the Board's responsibilities under recent legislation wherein, with respect to securities issued by member State banks, the powers, functions, and duties of the Securities and Exchange Commission in administration and enforcement of certain sections of the Securities Exchange Act of 1934 were transferred to the Board.

9/2/64

-6-

There now had been distributed, with a memorandum from the Legal Division dated August 31, 1964, drafts of two further sections of the proposed new regulation relating to (1) "Reports of Directors, Officers, and Principal Stockholders of Banks" and (2) "Form and Content of Financial Statements." The two sections would complete the proposed regulation, and the Legal Division recommended that they be published in the Federal Register for comment.

Like the portion of the proposed regulation submitted earlier, the two draft sections followed pertinent regulations of the Securities and Exchange Commission, with changes that seemed necessary or desirable to adapt them to the special situation of banks. The regulations of the Commission also included provisions specifically relating to balance sheets, profit and loss or income statements, statements of surplus, and the form and content of schedules. The adaptation of such provisions to the special situation of banks appeared to present complex accounting questions, and the finding of solutions to those problems at this time would frustrate the plan to expedite the adoption of the new regulation by the Board. To offset the absence of specific regulations on such matters, there had been incorporated in the section on "Form and Content of Financial Statements" a summary of certain generally accepted accounting principles, drawn largely from rules drafted by the American Institute of Certified Public Accountants' Committee on Banking. It was hoped that this statement of principles, together with the other material in the

9/2/64

-7-

proposed regulation, would make clear to banks and accountants the kind of financial presentation that would accord with the objectives of the regulation. This manner of dealing with the subject was closely tied to, and depended upon, the requirement of certification by independent accountants.

Mr. Hexter, in commenting upon an observation made by Governor Mills, agreed that it seemed likely that various provisions of the proposed regulation, including the provisions with respect to financial statements, would require modification in light of the Board's evaluation of comments received as a result of publication in the Federal Register.

Governor Robertson, in commenting on one phase of this matter, questioned whether it would finally be found necessary to include in the regulation a requirement for the certification of financial statements by independent accountants. On the other hand, he thought the inclusion of such a provision was appropriate as it would give the banking industry an opportunity to offer suggestions. Recommendations for changes could then be studied by the Board, and the proposed regulation could be modified if that seemed warranted.

In this connection, Governor Robertson suggested that active consideration be given by the staff to the administrative arrangements that would be necessary to implement the provisions of the regulation finally adopted by the Board. Also, as comments were received on the proposed regulation, they should be reviewed intensively not only by the

9/2/64

-8-

Legal Division but appropriate members of other divisions, including the Division of Research and Statistics and the Division of Examinations. As he saw it, it was important not to lose time in adopting a regulation. He also suggested that the staff work closely with the staff of the Federal Deposit Insurance Corporation.

In further discussion, Governor Mills inquired whether Chase Manhattan Bank had commented with respect to the part of the draft Regulation that had already been published. He noted that the bank had recently received the approval of the New York Stock Exchange for the listing of its stock.

Mr. Hexter responded that when the Stock Exchange approved the listing, an Exchange representative had indicated to him full awareness of the fact that some time would elapse after comments were received by the Board before the new regulation could be adopted. Thus, there would necessarily be some delay before trading in the Chase stock could begin. Chase had made no objection.

Governor Robertson noted that he did not anticipate undue delay in the adoption of a regulation, and he expressed doubt that Chase Manhattan would be ready to move for a while. If Chase did make representations, however, the Board could act on the matter in the light of the circumstances involved at the time.

In further discussion, it was noted, as Governor Robertson had pointed out, that up to this time the Legal Division had handled most of

9/2/64

-9-

the work connected with issuance of the proposed regulation, although some matters had been discussed with other divisions. Governor Mitchell suggested that other appropriate divisions, including the Division of Examinations and Division of Research and Statistics, should now come more actively into the picture, by way of studying comments on the proposed regulation and otherwise, and it was understood that this would constitute a definite assignment for the divisions concerned.

Question was raised about a possibility that had been mentioned previously of obtaining technical staff assistance from the Securities and Exchange Commission, and Chairman Martin indicated that he would discuss this possibility further with Commission officials.

There followed further discussion of areas of potential difficulty in adopting a regulation, particularly in relation to the provisions of the draft regulation concerning the requirement for certification of financial statements, following which unanimous approval was given to the publication in the Federal Register, for comment, of the two additional draft sections of the proposed regulation in the form submitted by the Legal Division.

Messrs. Noyes, Cardon, Brill, Hexter, Partee, Conkling, Daniels, and Sanders then withdrew from the meeting.

International Banking Corporation (Item No. 4). At the meeting on July 24, 1964, the Board considered a draft of reply to a letter of June 24, 1964, from Chairman James S. Rockefeller of First National City

9/2/64

-10-

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 the bank) was operating pursuant to section 25 of the Federal Reserve Act, as well as the conditions under which International held stock of First National City Trust Company (Bahamas) Limited, Nassau, Bahamas. The Board deferred action on these matters, it being understood that a staff memorandum would be prepared as a basis for further consideration. Pursuant to that understanding, a memorandum dated August 21, 1964, from the Division of Examinations was distributed. It pointed out that subsequent to the meeting on July 24 a letter dated August 4, 1964, had been received from International Banking Corporation requesting reconsideration of conditions in the Board's letter of July 23, 1964, granting consent to the acquisition of 40 per cent of the capital stock of Banque de l'Afrique Occidentale, a proposed new bank. The memorandum not only discussed the two proposals set out in the draft letter considered at the meeting on July 24, but it also discussed the request of August 4 from International Banking Corporation. The following three specific 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.

9/2/64

-11-

- (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, with indication that 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 the letter of August 4, 1964, from International Banking Corporation that would take the general position that the conditions of the Board's consent of July 23, 1964, were appropriate where 40 per cent of the shares of a foreign bank were being acquired and that no substantial modification was warranted.

There was a general discussion of the three facets of the problem at the Board meeting on September 1, 1964, consideration focusing principally on the question whether to modify the conditions prescribed in the consent granted to International Banking Corporation for investment in Banque de l'Afrique Occidentale. At the conclusion of that discussion, it was understood that a memorandum would be prepared by the Division of Examinations that would list statutory and Regulation K restrictions on the ownership of shares of foreign banks by corporations operating under section 25(a) of the Federal Reserve Act, as well as the comparative conditions imposed in the Banque de l'Afrique case and in connection with the acquisition by International Banking Corporation of approximately a one-sixth interest in M. Samuel & Co. Limited, London, England. Such a memorandum, dated September 1, 1964, now had been distributed.

9/2/64

-12-

As discussion opened, Governor Mitchell commented that he would be agreeable to modifying the terms of the consent granted in the matter of Banque de l'Afrique so as to prescribe only conditions similar to those prescribed in the consent granted for investment in M. Samuel & Co., except that he was of the opinion that in the instant case the Board should reserve the right of examination of Banque de l'Afrique for cause.

Mr. Shay noted that under provisions of Regulation K the Board had such authority whenever control of a foreign bank was present. The applicable provision of the Regulation read: "Examiners appointed by the Board will examine each Corporation at least once a year. Each Corporation shall obtain and make available to such examiners, among other things, information as to the earnings, finances, management, and other relevant aspects of any organization whose shares it holds. When required by the Board, a Corporation shall cause any organization controlled by it to submit to examination by examiners selected or auditors approved by the Board."

Governor Mitchell observed that it might, of course, be difficult to require an examination of Banque de l'Afrique itself. However, it should not be difficult to require that International Banking Corporation be prepared to make available every bit of information in its own possession, including such papers as the articles of association of Banque de l'Afrique or papers relating to the agreement under which International Banking Corporation was investing in the shares of Banque de l'Afrique. (The

9/2/64

-13-

staff pointed out that articles of association were customarily obtained without difficulty in cases of investments of this nature.)

Governor Mitchell then noted that Regulation K provided, under the heading of "national purpose," that "The Congress, in enacting section 25(a) of the Act, provided for the establishment of international banking and financial corporations operating under Federal supervision with powers sufficiently broad to enable them to compete effectively with similar foreign-owned institutions and to afford the United States exporter and importer in particular--and to United States commerce, industry, and agriculture in general--at all times a means of financing international trade. In light of the public purposes involved, Corporations should be able in their activities abroad to operate, as best meets their corporate policies, through branches, agencies, and correspondents or through direct and indirect ownership in foreign-chartered companies engaged in banking or other international or foreign operations, so long as their credit and other activities are in the interest of the United States." He inquired whether it was not important to be assured that the stipulation "so long as their credit and other activities are in the interest of the United States" was being met.

Staff replies on this point suggested that although it would be within the Board's prerogative to prescribe such specific conditions as it might see fit in this regard, even in the absence of such conditions the Board retained the right to require disposition of the foreign holdings of an Edge or agreement corporation at any time that the retention

9/2/64

-14-

of such holdings became regarded as inappropriate in the light of statutory provisions. It was noted that there was nothing in the law, however, expressly giving the Board the right, if it so desired, to examine an organization such as Banque de l'Afrique.

During the discussion that ensued, Governor Mills commented that Banque de l'Afrique would be making periodic reports to its shareholders and the information that International Banking Corporation would be receiving with regard to its investment would be available to Federal Reserve examiners. Governor Mitchell questioned, however, whether reports to shareholders would necessarily disclose the kind of information concerning the operations of Banque de l'Afrique that he felt the Board should have a right to require. He was of the opinion that a condition should be prescribed that would establish a basis for obtaining such information.

In further discussion related to the point raised by Governor Mitchell, during which Governor Mitchell reiterated that he would like to see included in the letter of consent language on the right to examine, Governor Robertson indicated that he thought the conditions that had been imposed by the Board when consent was originally granted were appropriate. As he saw it, those requirements were essential in order to be able to formulate judgments on the activities of the foreign bank in which International Banking Corporation would be acquiring a 40 per cent interest. This was no time to retreat, Governor Robertson said, unless the Board

9/2/64

-15-

made a broad decision that it was going to withdraw the conditions prescribed in every case where approval was given subject to similar requirements.

Mr. Furth made a statement at this point in which he said that after studying further the conditions imposed in the case of the investment in M. Samuel and those imposed in the case of the investment in Banque de l'Afrique, he concluded that he and Mr. Solomon were not so far apart in their thinking as might have appeared from their remarks at yesterday's meeting. After discussing the respective conditions, most of which he felt did not present serious obstacles, he concluded that the only real problem seemed to lie in the condition bearing upon the right to examine Banque de l'Afrique. If the Board were to suggest to International Banking Corporation that it see to it that the Board retained the right to examine, or to have auditors approved by it inspect, Banque de l'Afrique "for good cause," he did not understand how International Banking Corporation could seriously object. This would mean, in effect, that the right of examination or inspection would be asserted only if something happened; for example, if reports available through International Banking Corporation did not seem to provide the information necessary to give a true picture, or if something happened to indicate the possibility of a serious situation having developed. In such event, International Banking Corporation no doubt would also suspect that something was wrong and would be willing to see that the matter was investigated. He believed

9/2/64

-16-

it should be possible to put together a list of requirements, including such requirements for after-the-fact reporting as might be deemed desirable, in such a way that they would be acceptable both to International Banking Corporation and to Banque de l'Afrique.

Governor Mitchell indicated that he would not be inclined to insist on the list of after-the-fact reporting requirements to which Mr. Furth had alluded, although he would not object to including them if the staff so desired and if they would present no particular obstacle. On the other hand, he continued to feel that the inclusion of some language on the right to examine was important.

Mr. Shay commented that the provisions of Regulation K addressed themselves to the right to examine a controlled corporation. In other words, Regulation K seemed to draw a line on the right to examine at a point where effective control by an Edge corporation was present. He added that the Board of course had the right to require any information it wanted from an Edge corporation. If the corporation was not in a position to furnish adequate information in a given case, the Board had the right to require divestment of the stock in question if the Board felt that the continued holding of such stock was inappropriate.

Governor Mitchell suggested that documents such as the articles of association of Banque de l'Afrique, if available, probably would reflect a sufficient degree of control in the hands of International Banking Corporation to indicate that the Board should not forego the right of access to records of Banque de l'Afrique.

9/2/64

-17-

In a further comment Governor Mitchell observed that the condition relating to right of examination, as stated in the original consent letter, might be construed by International Banking Corporation as requiring a typical bank examination of Banque de l'Afrique. Such would not be his intent, but the Board should make clear that it reserved the right to obtain necessary information. As a practical matter, it seemed that International Banking Corporation should have available to it all of the information that might be requested; if it did not, the Board could ask that it obtain such information.

Governor Mills noted that the fundamental responsibility of the Board was to see that each Edge and agreement corporation was sound and solvent. Another responsibility was to see that the operations of each such corporation were conducted in accordance with Federal law. Those responsibilities were set out in the law and the Board's regulation, and he felt that it should be possible to accomplish the purposes of the law without going several layers deep to discover what individual transactions were being conducted by organizations such as M. Samuel and Banque de l'Afrique.

Mr. Shay expressed agreement with the philosophy stated by Governor Mills. He commented that the Board seemed somewhat more concerned about what might be done through foreign subsidiaries of Edge corporations than the Congress itself had been. The basic objective of the law was to aid U. S. foreign commerce and to help U. S. banks to compete internationally.

9/2/64

-18-

True, the Board was given broad powers of supervision, but the statute left room for the exercise of discretion. Further, there was in the law a built-in protection to the parent banks of Edge corporations through the provision that they could not invest more than 10 per cent of their capital in such a corporation.

Governor Mitchell replied that Congress could not have been expected to anticipate and provide for dealing with all of the possible activities of Edge corporations and their subsidiaries that might be inimical to the interests of the United States. Thus the Board should not overlook the proper exercise of the broad powers of supervision that it had been granted in the law. For example, it should not forego the right of examination of foreign subsidiaries for good cause.

Mr. Solomon referred to the revision of Regulation K in 1963 and noted that a great many requirements in which the Board was interested previously had been written into the revised Regulation. Specific conditions on investments therefore were not as necessary as they might have been earlier. In his opinion, the assertion of the right to examine had been spelled out in the revised Regulation K about as well as it reasonably could. Admittedly, "control" was not a completely clear term, but if effective control did not in fact exist, it was difficult to see that it would be possible to require an Edge corporation to insist on Board examination of a foreign bank in which it had an interest. Mr. Solomon suggested that the Board might in effect say to International Banking

9/2/64

-19-

Corporation simply that it had reviewed the Corporation's request for a modification of the consent conditions in the Banque de l'Afrique case and had concluded, in the light of the provisions of Regulation K, that it would be satisfied with conditions no more onerous than those imposed in the M. Samuel case. In other words, the Board would make clear that it was relying on the provisions of Regulation K.

Discussion then turned to the section of the draft of response to Mr. Rockefeller's letter of June 24 that would point out that no exclusion on the size of loans, whether in local or foreign currency, was contained in the Board's letter of October 21, 1960, granting consent for International Banking Corporation to purchase shares of First National City Trust Company (Bahamas) Limited, as First National City Bank also operated a direct branch in Nassau. The draft letter would note that Mr. Rockefeller had referred particularly to the position taken by examiners that the trust company in the Bahamas was limited to a certain amount for a loan to one borrower. The particular matter that had raised the issue related to a loan arrangement with Pegasus Fund Ltd., a Bahamian company wholly owned by Socony Mobil Oil Co., Inc. The loan arrangement provided that Pegasus Fund could borrow up to \$20 million from the trust company under a revolving credit for loans in United States dollars. Under the arrangement, a Bahamian subsidiary of Pegasus Fund maintained United States dollar deposits, hypothecated to secure the loans, in an amount at least equal to the borrowings of Pegasus. The draft letter

9/2/64

-20-

would indicate that on the basis of such facts, it appeared that any loan made 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 provisions of the Board's consent of October 21, 1960. The proposed letter would state that 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, and that the Board suspended until further notice certain provisions of its consent so far as they related to restrictions on such loans. However, the loan that gave rise to the question concerning the loan limit was not denominated in the currency of the Bahamas, but in United States dollars. Nevertheless, since the Pegasus Fund loans were fully secured by the hypothecation of funds on deposit in the same currency in the trust company, and since they represented no financial risk, no objection would be interposed.

In discussion of this matter, Governor Robertson stated that he would not favor modifying the present condition with respect to loans by the Bahamian trust company. In certain cases, the Board had suspended such restrictions. In those cases, however, the parent organization (First National City Bank) did not have a direct branch available, as it did in the Bahamas. There was not sufficient information available about the current request, which could involve principally a device for tax evasion. In the absence of further information showing that a more pressing reason

9/2/64

-21-

was involved, he could not accede to the request. Further, he felt that exceptions should not be made in individual cases, but rather as generally applicable rules.

Chairman Martin questioned whether it was feasible to write rules that would apply across the board in this field. Such a practice would simplify the task, but he believed that the Board must feel its way along. It was possible, he continued, that the Board had been wrong with respect to the conditions that it had prescribed in granting consent to the investment by International Banking Corporation in M. Samuel & Co. However, he could not persuade himself that there was any great difference, from the standpoint of the conditions that should be imposed, between that investment and the proposed investment in Banque de l'Afrique Occidentale. It was always possible to put so much red tape around such investments as to make the ventures unattractive to reputable American firms.

In further discussion, it was pointed out that International Banking Corporation had indicated that arrangements for its investment in Banque de l'Afrique would have to be concluded relatively soon. It was suggested, therefore, that Board consideration of this matter might be handled separately from the other two proposals discussed in the memorandum from the Division of Examinations. Accordingly, the Chairman suggested modifying the Board's consent of July 23, 1964, so that the conditions prescribed would be substantially similar to those under which the Board granted consent for International to acquire shares of M. Samuel & Co. The granting of a consent in such form was approved, Governor

9/2/64

-22-

Robertson dissenting. It was understood that a letter to International Banking Corporation would be prepared on this basis and that the language included therein, with respect to a requirement for documentation as needed to verify that the conditions prescribed were being met, would be checked with Governor Mitchell before the letter was sent. A copy of the letter to International Banking Corporation, in the form transmitted pursuant to this action and understanding, is attached as Item No. 4.

It was understood that the disposition of the two other matters discussed in the memorandum of August 21, 1964, from the Division of Examinations would be considered further at another meeting. Chairman Martin suggested that Governor Mitchell continue to work with the staff on these and other problems relating generally to the Regulation K area, and the latter indicated that he would do so.

The meeting then adjourned.

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

Memorandum from the Division of International Finance dated August 14, 1964, recommending that a new Clerk-Stenographer position be established in that Division, it being understood that this position would be assigned to the Administrative Staff budget.

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

<u>Name and title</u>	<u>Division</u>	<u>Date</u>
Betty Ann Mulkey, Stenographer	<u>Examinations</u>	September 11, 1964

9/2/64

-23-

Name and titleDivisionDate

Rosa L. Falcone, Clerk-Stenographer

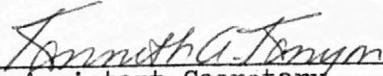
Personnel Administration

August 29, 1964

William Wiles, Summer Research Assistant

Data Processing

September 15, 1964


Assistant Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
9/2/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 2, 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 Dublin, Ireland, 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 in Dublin.

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, D. C. 20551

Item No. 2
9/2/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 2, 1964

Mr. Sidney C. King, President,
United Corporation,
5500 West Alameda,
Denver, Colorado.

Dear Mr. King:

This refers to the request contained in your letter of July 28, 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 United Corporation as a holding company affiliate.

From the information presented, the Board understands that United Corporation is a holding company affiliate by reason of the fact that it owns 15,350 (51.2%) of the 30,000 outstanding shares of stock of Alameda National Bank, Jefferson County (post office Denver), Colorado; 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 United Corporation 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, it 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.

Mr. Sidney C. King

-2-

If, however, the facts should at any time indicate that United Corporation 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) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3
9/2/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 2, 1964.



Dear Sir:

Enclosed are two copies of a Report on the Project to Avoid Sorting Unfit Federal Reserve Notes by Bank of Issue together with a memorandum from Mr. Farrell concerning the report.

It will be appreciated if your Bank will review the report so that it may be discussed at the forthcoming Conference of Presidents. The Board would like the views of the Presidents with respect to--

- (1) Whether it would seem desirable to suggest any changes in the proposed legislation, concerning redemption and destruction of Federal Reserve notes, which the Treasury has drafted and is now holding.
- (2) The possibility of having representatives of the Office of the Comptroller stationed in the Reserve Banks to assume (so far unspecified) responsibilities for the verification and destruction of unfit Federal Reserve notes.
- (3) The procedures that might be followed in allocating redemption credit for the unfit \$1 bills that are accumulating in increasing numbers.

Very truly yours,

A handwritten signature in cursive script that reads "Kenneth A. Kenyon".

Kenneth A. Kenyon,
Assistant Secretary.

Enclosures 2.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
(Copy to Mr. Timlen)

Item No. 4
9/2/64

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 4, 1964.



International Banking Corporation,
399 Park Avenue,
New York, New York.

Gentlemen:

This refers to the letter of August 4, 1964, from Mr. George C. Scott, Vice President of your Corporation, regarding the Board's letter of July 23, 1964, granting consent for your Corporation to purchase and hold 160,000 shares of the capital stock of the proposed new Banque de l'Afrique Occidentale (BAO).

Your letter requests that conditions numbered (1), (2), and (4), in the Board's letter be modified so as to be substantially similar to those under which the Board granted consent for your Corporation to acquire and hold shares of M. Samuel & Co. Limited, London, England.

The Board has reconsidered the matter and has concluded that in the circumstances and in view of the safeguards provided in the applicable statutes and the provisions of Regulation K, including the provisions of section 211.8 relating to investments in shares of other corporations and section 211.9(g) relating to examinations, it would be justified in modifying these conditions as you requested. Accordingly, these three conditions are replaced by the following:

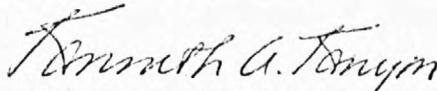
(1) That IBC shall dispose of its holding of stock of BAO, as promptly as practicable, in the event that BAO should at any time (a) engage in issuing, underwriting, selling or distributing securities in the United States; (b) engage in the general business of buying or selling goods, wares, merchandise, or commodities in the United States or transact any business in the United States except such as is incidental to its international or foreign business; or (c) otherwise conduct its operations in a manner which, in the judgment of the Board of Governors, causes the continued holding of its stock by IBC to be inappropriate under the provisions of the agreement of IBC pursuant to Section 25 of the Federal Reserve Act or Regulation K.

International Banking Corporation -2-

(2) That neither BAO nor any subsidiary bank or other affiliated company will maintain any branch, agency, office, or representative in the United States and that BAO or any subsidiary bank or other affiliated company, in issuing, underwriting, selling or distributing securities abroad shall not engage or participate in the underwriting, sale or distribution of securities in the United States, and may not so engage or participate directly or indirectly or through an agency or on a commission or consignment basis or in any other manner. If a security issue is being sold or distributed partly in and partly outside the United States, BAO or any subsidiary bank or other affiliated company may not underwrite, even on a standby basis, that portion being sold or distributed in the United States (no matter by whom it is being so sold or distributed).

The Board presumes in accordance with Regulation K that IBC is prepared and able at all times to offer assurances and such documentation as is needed that the foregoing conditions to which approval is subject continue to be satisfied.

Very truly yours,



Kenneth A. Kenyon,
Assistant Secretary.