R609

Minutes for September 3, 1964.

To: Members of the Board

From: Office of the Secretary

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

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

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin

Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. Mitchell

Gov. Daane

Minutes of the Board of Governors of the Federal Reserve System on Thursday, September 3, 1964. The Board met in the Board Room at 10:00 a.m.

PRESENT: 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. Shay, Assistant General Counsel

Mr. Holland, Associate Director, Division of Research and Statistics

Mr. Conkling, Assistant Director, Division of Bank Operations

Mr. Daniels, Assistant Director, Division of Bank Operations

Mr. Goodman, Assistant Director, Division of Examinations

Mr. Leavitt, Assistant Director, Division of Examinations

Mr. Sprecher, Assistant Director, Division of Personnel Administration

Mr. Langham, Assistant Director, Division of Data Processing

Mr. Forrestal, Attorney, Legal Division

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

| | Item No. |
|---|----------|
| Letter to Western Bancorporation International Bank, New York, New York, granting consent for the corporation to increase its capital stock and approving an amendment to its Articles of Association. | 1 |
| Letter to United Community National Bank, Washington, D.C., granting its request for permission to maintain reduced reserves. | 2 |
| Letter to Society Corporation, Cleveland, Ohio, rescinding the Board's determination made in 1959 concerning holding company affiliate status effective if and when Society Corporation acquires the status of a bank holding company by virtue of its acquisition of stock of The Fremont Savings Bank Company, Fremont, Ohio. | 3 |
| Letter to the Federal Reserve Bank of San Francisco regarding the eligibility of bonds of the Music Center Lease Company, Los Angeles, California, for investment by State member banks | |
| Letter to the Federal Reserve Bank of St. Louis concurring in the opinion of the Bank that the present classification of member banks in the Eighth District for the purpose of elect Class A and Class B directors is satisfactory. | |
| Letter to the Federal Reserve Bank of St. Louis authorizing the Bank to proceed with the preparation of final plans and specifications for the proposed new Little Rock Branch building. | 6 |
| Letter to the Federal Reserve Bank of Chicago approving a change in the effective date of increased salary rates for the Bank's painters. | 7 |

As approved, the letter regarding the Music Center Lease Company bonds (Item No. 4) reflected certain editorial changes in the draft that had been circulated.

Chicago salary structures (Item No. 8). There had been circulated to the Board, with a memorandum from the Division of Personnel Administration

dated August 24, 1964, containing a favorable recommendation, a request from the Federal Reserve Bank of Chicago for approval of increases averaging 3 per cent in the salary structures applicable to employees of the head office and the Detroit Branch.

In discussion of the request, Governor Mitchell questioned whether it was appropriate to make adjustments of such small proportions in Reserve Bank salary structures. He also noted that there appeared to be some inconsistency in the results of community wage surveys conducted by the Reserve Bank itself and by Business Research of Chicago. The independent Bank survey appeared to show that the head office structure was about 5 per cent behind the community in grades 2 through 13, while the Business Research survey showed the head office structure to be only slightly behind the community. He doubted whether community rates could be measured with a fine degree of precision and suggested that revisions in Reserve Bank salary structures might appropriately be deferred until adjustments of as much as 5 per cent or more were clearly indicated.

There followed discussion of the amounts and timing of recent salary structure adjustments at various Reserve Banks, and of the composition of the Business Research survey. Mr. Sprecher referred to the generalized nature of the Business Research survey, changes that had taken place in the participating group of organizations, and adjustments that the Chicago Reserve Bank had attempted to make in the survey for its own purposes. He indicated that the proposed Chicago structure would

9/3/64 -4-

appear to be quite well in line with the structures of the other Reserve Banks (it would rank third in the System, behind New York and San Francisco).

Mr. Sprecher reported that President Scanlon felt a need existed for some relief at this time, though not a 5 per cent structure increase, and that Mr. Scanlon preferred relatively small and gradual adjustments, which eased problems of salary administration within the Reserve Bank. While it was true, Mr. Sprecher acknowledged, that the competitive wage market could hardly be measured with fine degrees of accuracy, during the past several years there had been a trend on the part of the Reserve Banks, with Board approval, toward smaller and more gradual structure adjustments so as to keep just about in step with the local market, as opposed to larger, more infrequent adjustments that would temporarily, at least, place the Reserve Banks ahead of the local market.

After further consideration of the results of the Chicago surveys, Governor Mitchell commented that the information submitted by the Chicago Bank did not indicate that undue difficulty was being experienced in the attraction and retention of employees. This might be the case, but the record did not provide evidence. He added that he would not argue, of course, against the Reserve Banks paying competitive rates. He would argue, however, against changes in scales of compensation unless the facts clearly demonstrated that higher rates were needed. He concluded by saying that in the Chicago case he would be prepared to vote either for deferring any

salary structure adjustment or for an upward adjustment of 5 per cent if, as seemed to be suggested by the Reserve Bank's independent survey, such a change was warranted.

Governor Shepardson commented that at one time the Board had followed a practice of approving salary structures that were above the average for the respective communities, with somewhat longer intervals between adjustments. The argument was advanced within the Board several times that through this procedure the Reserve Banks were leading the market. The objective in moving toward smaller and somewhat more frequent adjustments was to avoid being in the position of leading the market, and also to avoid internal administrative problems such as the need for rather substantial adjustments, which might not be merited in individual cases, to bring salaries of employees up to the grade minimums of revised salary structures. Granting the difficulty of measuring small changes in the local market accurately, the practice of making more gradual adjustments in the salary structures avoided some of the distortions that otherwise occurred.

Governor Mills commented that he would be willing to accept the proposal of the Chicago Bank, on the basis of having confidence in the judgment of the management of the Bank and its directors. He noted that the problem involved in Governor Mitchell's questions went back to the whole area of cost-push inflation, which the Board was trying to avoid. He did not feel that the Chicago proposal was inconsistent with the general

9/3/64 -6-

trend of thinking that the Board had adopted in recent years in relation to the Reserve Bank salary structures.

After further discussion the request of the Chicago Reserve Bank was approved, Governor Mitchell dissenting for the reasons he had indicated. A copy of the letter sent to the Reserve Bank pursuant to this action is attached as Item No. 8.

Messrs. Holland, Sprecher, and Forrestal then withdrew from the meeting.

Report on interagency conflicts (Item No. 9). There had been distributed, with a memorandum from Messrs. Cardon and Shay dated September 2, 1964, a draft of reply to a letter dated August 20, 1964, in which Chairman Patman of the House Banking and Currency Committee requested a list of points of disagreement between the Board of Governors and other bank supervisory agencies, with an elaboration of disagreements or conflicts in jurisdiction with the Comptroller of the Currency. Subsequent inquiry of Committee Counsel indicated that the principal reason for the request was to deal with a press inquiry that had been directed to the Committee staff, and that a listing of only the principal points of conflict would suffice. The draft of reply had been prepared accordingly.

In discussion, several suggestions were agreed on for changes in language in the interest of clarification and emphasis. It was also agreed that reference to the difference between the Board and the Federal Deposit Insurance Corporation on the question whether absorption of exchange

charges involves payment of interest on deposits should be deleted from
the report and included instead in the transmittal letter. Further, there
was agreement with a suggestion by Governor Robertson that the listing of
Points of conflict be preceded by an introductory paragraph indicating
that in general the disagreements with the Comptroller arose out of changes
the Comptroller had announced in rules that had been embodied by the
Congress in statutes, and that the essential issue was whether laws
should be altered by any authority other than the Congress itself.

Accordingly, unanimous <u>approval</u> was given to a letter to Chairman Patman and enclosure in the form attached as <u>Item No. 9</u>.

Messrs. Cardon and Shay then withdrew and Messrs. Hexter, Assistant General Counsel, and Sanders, Attorney, Legal Division, entered the room.

Issuance of unsecured notes. The First National Bank of Boston, Boston, Massachusetts, had announced yesterday its intention to issue its own unsecured notes in multiples of \$1 million, with maturities tailored to a broad range of customer requirements. The bank did not indicate specifically what interest rates it would pay, but noted that the rates would be similar to those on commercial paper and certificates of deposit.

This announcement had resulted in press and other inquiries at the Board and at least two Reserve Banks (Boston and New York). Interpretation was sought as to the applicability of the interest rate limitations of Regulation Q, Payments of Interest on Deposits, and the reserve requirements of Regulation D, Reserves of Member Banks. There was some indication

that other banks, particularly in New York, were actively considering the possibility of issuing unsecured notes. This raised the question whether there was any action that the Board should take at this time, by way of issuance of a public statement or otherwise.

In discussion of the matter, Mr. Hackley commented that in this particular case it was difficult to see that there would be any evasion of Regulation Q. As the facts were understood, First National of Boston proposed to issue unsecured negotiable notes with maturities from 30 days to one year, on which notes the bank would pay interest rates not in excess of those it could pay on negotiable certificates of deposit. The implications, however, were rather perplexing. If a bank's notes represented "borrowings," the rates paid thereon would not be subject to Regulation Q, and a bank could therefore pay a higher rate of interest than permissible for certificates of deposit. Also, the notes would not be subject to reserve requirements, or to deposit insurance assessments. The only limitation would be that on a bank's borrowing (for a national bank, 100 per cent of capital and 50 per cent of surplus). In addition, the Comptroller of the Currency, who had issued a ruling that the sale of notes was legal for national banks, conceivably might take the position that such notes were part of capital and surplus and could be included in the base for computing a bank's lending limitations. The same thing conceivably might happen under State law. Offhand, Mr. Hackley said, he did not see any legal ground on which the Board could hold that there was

any positive evasion of Regulation Q, particularly in light of the Board's recent ruling, as published in the August issue of the Federal Reserve Bulletin, which held in effect that a bank's demand deposit balances carried with a city bank could be converted into borrowings on which the city bank could pay interest.

Governor Mills suggested that at some point the general public should be made aware of whatever views the Board might hold on banks living beyond their means and augmenting their normal deposit resources through borrowed funds. To the extent that banks were doing this, they were in effect diluting the protection afforded to their ordinary deposit customers. He was surprised that there had been no criticisms of the use of borrowed funds on the part of corporate treasurers, who were careful analysts of bank statements. He felt that the cautious analyst should differentiate between a bank that was borrowing substantial amounts of money and a bank that lived off its normal resources. Somewhere along the line, that reasoning should be brought to public attention. He inquired whether there was a desire on the part of the Board members to develop a philosophical resistance to such a practice. In his view the

After further discussion of developments stemming from the announcement by First National of Boston, Governor Mills made the additional comment that he considered it important for the Board to make a public statement if it was disposed to feel that the issuance by banks of unsecured

notes constituted an undesirable practice. There appeared to be no question of legality about a bank's borrowing directly in the open market, within the limitations provided by statute. However, the Board might want to express definite reservations about the practice, that is, whether it was good banking—in the established sense of commercial banking—for a bank to borrow funds to augment the resources it derived from the normal flow of deposits. He had concern about this kind of transaction, which carried an indication that banks were extending their credit facilities beyond the limitations that would ordinarily be considered proper.

There followed comments by Mr. Solomon raising the question whether the Board would want to consider in any statement alerting banks that if they overextended their resources in normal times they should not do so on the assumption that they could automatically obtain relief, if needed at some point, at the Federal Reserve discount window. However, there were comments by Board members indicating a view that this phase of the matter should be thought through very carefully.

Governor Mitchell suggested that the Board exercise moderation in looking at the problem. While he shared some of Governor Mills' reservations, he felt it was not feasible to try to protect people fully from their own indiscretions. He was troubled, nevertheless, by the kind of investments banks were making with short-term funds. The negotiable certificate of deposit had been in popular use for only a relatively short

time, and the implications of its use were not yet fully discernible. Offhand, it appeared to him that the unsecured note might be a better instrument for banks than the negotiable certificate, for the banks achieved more flexibility. On balance, he was inclined to think that the Board should sit back a little rather than to try to do something immediately.

Governor Mills expressed the view that some appropriate Board statement might be welcomed by the more responsible elements of the banking and financial community, particularly in view of the competitive pressures that had grown up recently within the banking industry, causing some banks to follow certain practices reluctantly.

Governor Robertson commented that the question under discussion seemed sufficiently important that it would be prudent for the Board to consider any action carefully. However, timing was also a factor. He felt that it would be appropriate for the staff to begin work promptly on a draft of statement that the Board could study and consider issuing. He then indicated several points that he felt should be considered by the staff for inclusion in such a draft of statement.

There was general <u>agreement</u> with Governor Robertson's suggestion, and Messrs. Noyes, Molony, Hackley, and Solomon were designated to undertake the initial drafting of a statement. It was suggested that a draft might be considered at tomorrow's meeting of the Board, and that such revised draft as resulted might then be discussed with the Reserve Bank

Presidents when they were in Washington on Tuesday, September 8, for a meeting of the Federal Open Market Committee. It was understood that, pending further Board discussion, any inquiries received should be handled in such manner as to avoid taking a position.

Messrs. Young and Brill then withdrew from the meeting.

Regulation of trading in bank securities. At its meeting on September 2, 1964, the Board approved additional draft sections of a proposed Regulation F, Securities of Member State Banks, for publication in the Federal Register for comments. Messrs. Hexter and Sanders now advised that before steps implementing the Board's action had been completed, word was received from a representative of the Federal Deposit Insurance Corporation indicating that the Corporation had under consideration certain procedures that would depart, in respect to nonmember insured banks, from those contemplated by the Board in respect to State member banks.

After discussion of this development, it was <u>understood</u> that Governor Balderston would get in touch with Chairman Barr with a view to obtaining clarification of the procedures under consideration by the Federal Deposit Insurance Corporation.

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 San Francisco (attached Item No. 10) approving the appointment of Andrew P. Pilara, Jr., as assistant examiner.

9/3/64

-13-

Memoranda recommending the following actions relating to the Board's staff:

Appointment

Robert S. Plotkin as Senior Attorney, Legal Division, with basic annual salary at the rate of \$14,660, effective the date of entrance upon duty.

Salary increase

David Sullivan, Guard, Division of Administrative Services, from \$5,220 to \$5,680 per annum, effective September 13, 1964.

Assistant Secretary



Item No. 1 9/3/64

FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE

September 3, 1964.

Western Bancorporation International Bank, 61 Broadway, New York 15, New York.

Gentlemen:

In accordance with the request made by Mr. Frank L. King, Chairman of the Board, Western Bancorporation, Los Angeles, California, on behalf of Western Bancorporation International Bank, the Board of Governors grants consent for your Corporation to increase its capital stock from \$2,500,000 to \$5,000,000.

Pursuant to the provisions of Section 211.3(a) of Regulation K, as amended September 1, 1963, the Board also approves the amendment to Article SEVENTH of the Articles of Association of your Corporation as contained in the Certificate of Amendment as adopted on August 18, 1964 by the unanimous consent, in writing, of the shareholders of Western Bancorporation International Bank in lieu of a shareholders' meeting.

It will be appreciated if you will inform the Board of Governors, through the Federal Reserve Bank of New York, when the additional capital has been paid in.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke, Assistant Secretary.



Item No. 2 9/3/64

FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 3, 1964.

Board of Directors, United Community National Bank, Washington, D. C.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the United Community National Bank to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective as of the date it opens for business.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Kenneth A. Kenyon

Item No. 3 9/3/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 3, 1964.

Society Corporation, Cleveland, Ohio.

Gentlemen:

Under date of April 13, 1959, Society for Savings Company in the City of Cleveland, now known as "Society Corporation," was advised of the determination by the Board of Governors that the Company was 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. As a result of this determination, the Company ceased to be a holding company affiliate for any purposes other than of those of section 23A of the Federal Reserve Act.

The Board's determination was made upon the understanding that Society for Savings Company in the City of Cleveland did not, directly or indirectly, own or control any stock of, or manage or control, any banking institution other than Society National Bank of Cleveland. Under date of July 27, 1964, the Board issued an order approving an application by Society Corporation to become a bank holding company through acquisition of common and preferred stock of The Fremont Savings Bank Company, Fremont, Ohio.

In view of the proposed acquisition of stock in a second bank, the Board rescinds the determination made on April 13, 1959, effective if and when Society Corporation acquires the status of a bank holding company by virtue of its acquisition of stock of The Fremont Savings Bank Company. Accordingly, at such time, the Corporation will become a holding company affiliate for all purposes within the meaning of section 2(c) of the Banking Act of 1933, and if the Corporation desires to vote the stock of Society National Bank of Cleveland, it will be necessary to apply for and obtain a Voting permit from the Board of Governors.

Very truly yours,

(Signed) Kenneth A. Kenyon



OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 4 9/3/64

ADDRESS OFFICIAL CORRESPONDENCE

September 3, 1964.

Mr. E. H. Galvin, Vice President, Federal Reserve Bank of San Francisco, San Francisco, California 94120.

Dear Mr. Galvin:

This is in reply to your letter of July 30, 1964, concerning bonds of the Music Center Lease Company, Los Angeles, California. Both member State banks referred to in your letter appear to have purchased such bonds for the purpose of investing therein, as distinguished from dealing or underwriting.

There is enclosed herewith a copy of a ruling of August 21, 1964, by the Comptroller of the Currency that the Music Center Lease Company bonds are eligible investments for national banks. The ruling was published in the August 27, 1964 issue of the Federal Register (29 Federal Register 12299). In View of the Comptroller's ruling, the Board will raise no question in this case, and accordingly the bonds will be considered eligible for investment by member State banks.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon, Assistant Secretary.

Enclosure



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Item No. 5 9/3/64

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 3, 1964.

Mr. Harry A. Shuford, President, Federal Reserve Bank of St. Louis, St. Louis, Missouri. 63166

Dear Mr. Shuford:

This refers to your letter of August 7, 1964, concerning classification of member banks in the Eighth District for the purpose of electing Class A and Class B directors.

It is noted that after reviewing the present classification, which has been in effect since September 10, 1962, your Bank believes that it is satisfactory. The Board concurs in this opinion, and will make no change in the existing classification at this time.

Very truly yours,

(Signed) Kenneth A. Kenyon

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BOARD OF GOVERNORS

OF THE

Item No. 6 9/3/64

FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE

September 3, 1964.

Mr. Harry A. Shuford, President, Federal Reserve Bank of St. Louis, St. Louis, Missouri. 63166

Dear Mr. Shuford:

This refers to your letter of July 23, 1964, with which you transmitted for Board consideration preliminary plans and outline specifications for the proposed new building for the Little Rock Branch.

The Board authorizes your Bank to proceed with the preparation of final plans and specifications for the Little Rock Branch building in accordance with the preliminary plans and specifications submitted with your letter.

Very truly yours,

(Signed) Kenneth A. Kenyon



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Item No. 7 9/3/64

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 3, 1964.

Mr. C. J. Scanlon, President, Federal Reserve Bank of Chicago, Chicago, Illinois. 60690.

Dear Mr. Scanlon:

As requested in your letter of August 26, the Board of Governors approves a change in the effective date of increased salary rates for painters at the Federal Reserve Bank of Chicago. The rates which were approved effective June 1, 1964, are approved to be retroactive to April 1, 1964, because of a change made by the Building Managers Association of Chicago.

Very truly yours,

(Signed) Kenneth A. Kenyon

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BOARD OF GOVERNORS

Item No. 8 9/3/64

FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE

September 3, 1964.

CONFIDENTIAL (FR)

Mr. Charles J. Scanlon, President, Federal Reserve Bank of Chicago, Chicago, Illinois 60690.

Dear Mr. Scanlon:

As requested in your letter of August 13, 1964, the Board of Governors approves the following minimum and maximum salaries for the respective grades of the employees' salary structures at the Federal Reserve Bank of Chicago and Detroit Branch, effective immediately.

| Grade | Head Office | | Detroit Branch | |
|----------|------------------|----------|----------------|----------|
| | Minimum | Maximum | Minimum | Maximum |
| 1 | \$ 2,645 | \$ 3,575 | \$ 2,900 | \$ 3,900 |
| 2 | 2,875 | 3,885 | 3,150 | 4,250 |
| 3 | 3,170 | 4,290 | 3,400 | 4,600 |
| 4 | 3,530 | 4,780 | 3,800 | 5,100 |
| 5 | 3,895 | 5,275 | 4,200 | 5,700 |
| 6 | 4,265 | 5,775 | 4,650 | 6,250 |
| 7 | 4,760 | 6,440 | 5,050 | 6,850 |
| 8 | 5,255 | 7,105 | 5,600 | 7,600 |
| 9 | 5,760 | 7,790 | 6,200 | 8,350 |
| 10 | 6,365 | 8,615 | 6,700 | 9,050 |
| 11 | 6,985 | 9,455 | 7,250 | 9,850 |
| 12 | 7,670 | 10,380 | 7,850 | 10,650 |
| 13 | 8,515 | 11,525 | 8,600 | 11,600 |
| 14 | 9,475 | 12,815 | 9,350 | 12,650 |
| | | 14,390 | 10,350 | 14,000 |
| 15 16 | 10,640 11,900 | 16,100 | 11,400 | 15,400 |

the limits specified for the grades in which the positions of the respective employees are classified. All employees whose salaries are below the minimums of their grades as a result of these structure increases should be brought to appropriate ranges within three months of the effective date of the new structures.

Very truly yours,

(Signed) Kenneth A. Kenyon



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM WASHINGTON

Item No. 9 9/3/64

OFFICE OF THE VICE CHAIRMAN

September 3, 1964.

The Honorable Wright Patman, Chairman, Committee on Banking and Currency, House of Representatives, Washington, D. C. 20515

Dear Mr. Chairman:

In reply to your letter of August 20, 1964, there is enclosed a list of principal points of disagreement or conflict between the Board and the Comptroller of the Currency.

Although your request was sufficiently broad to cover points of disagreement with the Federal Deposit Insurance Corporation as well as the Comptroller of the Currency, there is only one instance in which the Board and the Corporation have been unable thus far to resolve their differences. That relates, as you will recall, to the question of whether absorption of exchange charges involves a payment of interest on deposits.

In accordance with your letter, each item listed is followed by a brief explanation of the matter involved.

Sincerely yours,

C. Canby Balderston, Vice Chairman.

Co Balderston

Enclosure

POINTS OF DISAGREEMENT BETWEEN THE BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM AND THE COMPTROLLER OF THE CURRENCY

Set forth below are principal points of disagreement between the Board of Governors and the Comptroller of the Currency in connection with the regulation of commercial banking. In general, these disagreements arise out of changes the Comptroller has announced in rules that have been embodied by the Congress in statutes. Quite apart from policy questions, the essential issue is whether laws should be altered by any authority other than the Congress itself.

(1) Access to Information in Comptroller's Office

Information contained in reports of examination of national banks is essential to the Board in carrying out its statutory responsibilities relating to credit conditions, bank holding companies, reserves against deposits, and a number of other matters. While this information could be obtained under the law by direct examination of national banks (12 U.S.C. 483), this would involve costly duplication of the Comptroller's examinations, so the Board and the Federal Reserve Banks have relied on the Comptroller to furnish copies of his examination reports upon payment of the costs of reproducing the additional copies needed.

Effective July 1, 1962, the Comptroller raised his charges for these copies. Under the new schedule the charges for single copies of commercial, trust, and separate branch reports are \$100,

\$50, and \$25, respectively, whereas under the old schedule the charge was \$10 for single copies of commercial reports and, with a few exceptions, \$5 for single copies of trust and separate branch reports. Formerly, second copies of reports were obtained for the use of various Reserve Bank branches at 50 per cent of the cost of a first copy, whereas under the new schedule second copies are not furnished to the Reserve Banks.

The new charges were imposed after five months of discussion and correspondence, in which the Board took the position that, under applicable law (12 U.S.C. 482), these charges could not be used as a means of shifting part of the costs of examining national banks to the Federal Reserve System, which in turn would have the effect of reducing the System's annual payments into the Treasury. The charges finally imposed were lower than originally proposed, and the Board agreed to pay them. The only alternative was for the Reserve Banks to conduct separate examinations at much greater expense in order to obtain this essential class of information.

(2) Reports of Condition

All national banks and State-chartered banks that are members of the Federal Reserve System or insured by the Federal Deposit Insurance Corporation are required to make reports of condition four

(Comptroller for national banks, Board for State member banks, and FDIC for insured nonmember banks). Until recently the three Federal bank supervisory agencies have used nearly identical report forms for all three categories of banks, developed after consultations with State bank supervisors. Under established agreements, almost all States use the same form as adopted by the FDIC and the Board.

For the September 30, 1963 report, however, the Comptroller of the Currency unilaterally made changes in the form sent to national banks, as a result of which data reported by national banks in response to that call became incompatible with data previously compiled for all three types of banks, and with data gathered from State banks at the same call, since the Board and the FDIC continued to use the report form previously worked out with State authorities. The Comptroller dropped plans for use of the September 30 format and changed back to a substantially compatible form for the December 20, 1963 call, but switched to another incompatible form for the April 15, 1964 and June 30, 1964 calls.

The changes initiated by the Comptroller created important 8aps in data needed for monetary policy formulation and general financial analysis. To offset these losses in part, it has been necessary to require national banks to submit supplemental information (12 U.S.C. 248(a), 483) through reconciliation statements and in response to less formal inquiries from the Reserve Banks.

(3) Federal Funds Transactions

In June 1963, the Comptroller of the Currency published his ruling that "Federal funds" transactions (i.e., interbank transfers of bank balances with Federal Reserve Banks) are not subject to the statutory lending and borrowing limitations applicable to national banks. (Comptroller's Manual, paragraph 1130) This ruling, reversing the previous view of the Comptroller's Office, is contrary to the Board's position over the years that, for the purposes of statutory limitations administered by it, so-called "sales" and "purchases" of Federal funds actually constitute loans and borrowings. (1963 Federal Reserve Bulletin 1238)

(4) Corporate Savings Accounts

The Comptroller expressed the view in December 1963 that the Board has no authority to preclude the maintenance of savings deposits by any class of depositor and that, therefore, national banks may accept such deposits from business corporations. (Comptroller's Manual, Paragraph 7510) The Board subsequently reiterated its long-standing Position that business corporations may not maintain savings deposits, and referred to its express statutory authority in section 19 of the Federal Reserve Act to define "savings deposits" for interest and reserve purposes with respect to all member banks, State and national. (1964 Federal Reserve Bulletin 9)

(5) Loans to Executive Officers

In an interpretation published in December 1963 (Comptroller's Manual, paragraph 5235), the Comptroller intimated that national banks are not bound by the definition of the term "executive officer" set forth in the Board's Regulation O (12 CFR 215.1(b)), implementing the statutory prohibition in section 22(g) of the Federal Reserve Act against the making of loans to their executive officers by all member banks, including national banks. As the statute specifically authorizes the Board to issue the Regulation and to define "executive officer", the Board's position is that the definition and its Regulation are controlling as to both State member and national banks.

(6) Subordinated Notes and Debentures, and Undivided Profits, as part of Capital and Surplus

A number of provisions of the Federal banking laws impose limitations on bank activities based on the size of the capital, or surplus, or both, of the particular bank. In December 1963, the Comptroller published a ruling that capital notes and debentures that are subordinated to deposit liabilities may be regarded as part of a national bank's capital stock and surplus in applying statutory limitations on loans by national banks. Shortly thereafter, the Comptroller issued a ruling that undivided profits could also be regarded as part of capital and surplus for the same purpose. (Comptroller's Manual, paragraph 1100) The Board, in construing statutory provisions it

administers, continues to believe that neither undivided profits nor subordinated notes and debentures may properly be included in capital and surplus under the law as enacted by the Congress. (1964 Federal Reserve Bulletin 9, 710)

(7) Regulation of Overseas Operations

Under a proposed regulation published for comment in December 1963 (28 Federal Register 13868), the Comptroller would have required national banks to obtain his prior approval and comply with his conditions in order to engage in any "international operations" through direct branches overseas or through subsidiary organizations, including so-called Edge and Agreement corporations. The authority to authorize and regulate the overseas operations of all member banks, both national and State, has been centered in the Board for years under sections 9, 25, and 25(a) of the Federal Reserve Act. Under these laws national banks, and State member banks also, have to obtain Board approval and comply with applicable Board regulations in the conduct of overseas operations through direct branches or subsidiary Edge or Agreement corporations.

The Board opposed the proposed regulation because the administrative duplication and confusion that would flow from adoption of the proposed regulation would be an unnecessary encumbrance to the conduct of overseas operations by national banks. The Comptroller has now issued, effective September 7, 1964, a regulation requiring "prior notification" to him (rather than his prior approval) of proposed overseas operations by national banks.

(29 Federal Register 11333) However, under the Board's procedures in connection with its statutory responsibilities over foreign branches and Edge and Agreement corporations, the Comptroller already receives prior notification of the principal proposals of national banks for overseas operations.

(8) Investments in Foreign Banks

The Comptroller issued a ruling in July 1964 that national banks may acquire and hold directly stock interests in foreign banks as a means of conducting overseas operations. (Comptroller's Manual, Paragraph 7525) In the Board's opinion (of which the Comptroller had been specifically advised prior to the issuance of his ruling), the direct acquisition and holding by any member bank, national or State, of stock of foreign banks clearly is not permissible under present law. (1964 Federal Reserve Bulletin 1000)

(9) Revenue Bonds

Section 5136 of the Revised Statutes prohibits national banks from underwriting State or local bond issues unless the bonds involved are "general obligations". (12 U.S.C. 24) This is made applicable to

State member banks by section 9 of the Federal Reserve Act. By longestablished precedent, the term "general obligations" has been construed to mean bonds backed directly or indirectly by the full faith and credit of a governmental body that possessed general powers of taxation, including property taxation. Last year, however, the Comptroller of the Currency issued a revised regulation, effective September 12, 1963 (12 CFR 1), defining "general obligation" to include an obligation "supported by the full faith and credit of the obligor" even though the obligor is a special authority without taxing power. In effect, this new definition freed national banks from most of the law's restrictions against underwriting revenue bonds. Board believes the Comptroller's new definition is unwarranted, and that the statutory term, "general obligations", should be construed in accordance with the long-established precedents. The result of the Comptroller's action is that national banks are operating under new rules that allow them much broader authority for underwriting municipal issues than is permissible for State member banks. (1963 Federal Reserve Bulletin 1505, 1508)

September 3, 1964.



Item No. 10 9/3/64

FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 4, 1964.

Mr. E. H. Galvin, Vice President, Federal Reserve Bank of San Francisco, San Francisco, California. 94120

Dear Mr. Galvin:

In accordance with the request contained in Mr. Cavan's letter of August 28, 1964, the Board approves the appointment of Andrew P. Pilara, Jr., as an assistant examiner for the Federal Reserve Bank of San Francisco, effective today.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael, Assistant Secretary.