

FR609

Minutes for September 9, 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

mw

Gov. Mills

[Signature]

Gov. Robertson

RRB

Gov. Balderston

[Signature]

Gov. Shepardson

[Signature]

Gov. Mitchell

[Signature]

Gov. Daane

[Signature]

Minutes of a meeting of the available members of the Board of Governors of the Federal Reserve System on Wednesday, September 9, 1964. The meeting was held in the Board Room at 10:00 a.m.

PRESENT: Mr. Robertson, Acting Chairman  
Mr. Shepardson  
Mr. Mitchell

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Miss Carmichael, Assistant Secretary  
Mr. Young, Adviser to the Board and Director,  
Division of International Finance  
Mr. Molony, Assistant to the Board  
Mr. Cardon, Legislative Counsel  
Mr. Solomon, Director, Division of  
Examinations  
Mr. Hexter, Assistant General Counsel  
Mr. Shay, Assistant General Counsel  
Mr. Hooff, Assistant General Counsel  
Mr. Dembitz, Associate Adviser, Division  
of Research and Statistics  
Mr. Conkling, Assistant Director, Division  
of Bank Operations  
Mr. Leavitt, Assistant Director, Division  
of Examinations  
Mr. McClintock, Supervisory Review Examiner,  
Division of Examinations

The following actions were taken subject to ratification at the next meeting of the Board at which a quorum was present:

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>
Telegrams to the Federal Reserve Agent at Richmond authorizing the issuance of general voting permits to Financial General Corporation, Washington, D. C., and The Morris Plan Corporation, New York, New York, covering their stock of The First National Bank of Lexington, Lexington, Virginia, and Chesapeake National Bank, Towson, Maryland.	1-2

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Item No.

Telegram to the Federal Reserve Agent at Richmond authorizing the issuance of a general voting permit to Lexington Shares, Inc., New York, New York, covering its stock of The First National Bank of Lexington, Lexington, Virginia.

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Telegram to the Federal Reserve Agent at Richmond authorizing the issuance of a general voting permit to Chesapeake Shares Corporation, New York, New York, covering its stock of Chesapeake National Bank, Towson, Maryland.

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Report on competitive factors (New York-Mt. Vernon-Pelham, New York). There had been distributed a draft of report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of First National Safe Deposit Company of Pelham, N. Y., Inc., Pelham, New York, and First National Safe Deposit Company of Mt. Vernon, Mt. Vernon, New York, into Chemical Bank New York Trust Company, New York, New York.

The report, in which the conclusion read as follows, was approved unanimously for transmission to the Corporation: "The proposed merger would have no effect on competition."

Mr. McClintock then withdrew from the meeting.

Regulation of trading in bank securities (Item No. 5). At its meeting on September 4, 1964, the Board agreed to accede to the request of Chairman Barr of the Federal Deposit Insurance Corporation to delay until September 10 the release of the two remaining proposed sections of the tentative version of a new Regulation F, Securities of Member

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State Banks, that the Board had approved on September 2, 1964, for publication in the Federal Register for comments. During the interim period it was understood that the staff of the Board and the Corporation would get together and discuss certain aspects of the proposed regulation about which the staff of the Corporation had expressed concern.

In a distributed memorandum dated September 8, 1964, Mr. Hexter summarized the results of a conference of Board and Corporation representatives.

As had been mentioned at the Board meeting on September 4, the Federal Deposit Insurance Corporation had been giving consideration to deferring the issuance of regulations governing the trading in bank securities of nonmember insured banks and in the meantime exempting from registration requirements the securities of any such bank that desired to list its shares for trading on a securities exchange. Representatives of the Corporation had suggested to members of the Board's staff that the Board announce that it would not publish the two remaining sections of the proposed regulation for a year or more until the matter could be studied thoroughly. Members of the Board's staff had responded that the Board had considered a number of possible approaches but had concluded that it would be preferable to expedite publication of a proposed regulation and registration form based on those developed by the Securities and Exchange Commission over a period of thirty years. It was expected, however, that substantial revisions would probably be made before the regulation became effective.

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At the conclusion of the conference of Board and Corporation representatives on September 4, it had been understood that Mr. Hexter would furnish Mr. Lee of the Corporation's staff with a copy of a proposed Board press release that would refer to the Board's intent to revise the proposed Regulation F to the extent called for in the light of public comments. Also, it had been agreed that Mr. Conkling of the Board's staff and Mr. Harris of the Corporation's staff would draft a proposed amended section 206.7(d)(20), relating to the applicability of instructions for preparation of reports of condition and reports of income and dividends. If these matters could be worked out satisfactorily, it appeared that the Federal Deposit Insurance Corporation might agree to publish the remaining two sections of its proposed regulation with a covering press release.

Mr. Hexter reported that a draft of such a press release had been received from the Corporation this morning and it was in general similar to the draft of the Board's release. However, to meet objections that had been raised by the Corporation's representative, Mr. Hexter suggested that the following sentence be included in the Board's release: "Like those previously released, these sections are designed to stimulate study by bankers and others and to elicit suggestions for revision that would result in regulations effectuating the purposes of the Securities Exchange Act without imposing unnecessary burdens and expense upon the banking industry." There was agreement with this suggestion, and it was understood that the sentence would be included.

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Reference was then made by Mr. Hexter to section 206.7(d)(20) of the Board's proposed regulation, which read as follows: "Except to the extent inconsistent with the requirements of this Part, the Board's Instructions for the preparation of Reports of Condition and Reports of Income and Dividends of member State banks are applicable to the financial statements of such banks that are filed with the Board pursuant to this Part." The Corporation's representatives had expressed preference for omitting the reference to reports of condition and reports of income and dividends in the new regulation, but no change in wording of this portion of the regulation had as yet been agreed upon. Mr. Hexter stated that there was a feeling on the part of the Board's staff that this was not a major provision of the regulation.

Mr. Conkling then commented on the efforts that had been made to amend the paragraph in question. He observed that, since it was not essential at this time and since its inclusion was opposed by the Corporation, he would be inclined to omit the entire paragraph.

Responding to a question from Governor Mitchell as to why the Corporation did not wish to include the paragraph in its present form, Mr. Conkling stated that the Corporation's representatives did not look favorably on the current reports of condition and of income and dividends and would prefer to develop a new regulation balance sheet with appropriate instructions covering all the items on that sheet.

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Governor Mitchell commented that the banks would always be making reports of condition and of income and dividends and he saw no reason for ignoring the fact that such reports existed. Also, he believed that the Board should have in mind the matter of minimizing the reporting burden of banks.

Mr. Hexter pointed out that this paragraph of the proposed regulation did not deal directly with the purposes of the Securities Exchange Act, but rather it was in the supervisory area. In order that the Board and the Federal Deposit Insurance Corporation might achieve a unified approach, Mr. Hexter said that he also would be inclined to omit the paragraph. This would not preclude its inclusion in the regulation as finally approved by the Board.

During the discussion that followed, consideration was given to the possibility of getting in touch with the Federal Deposit Insurance Corporation again and indicating that the Board had a preference for retaining the paragraph in its present or somewhat amended form, having in mind the possible duplication of reporting requirements.

In the course of the discussion, Governor Shepardson expressed the view that there was much to be said for going ahead with the Corporation on a common document, especially since the Board's staff had indicated that the paragraph in question was not particularly significant and could be included later if considered desirable.

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The discussion then turned to the requirements in the proposed regulation with respect to the furnishing of certified statements by banks. Mr. Conkling noted that the Corporation's representatives had expressed the view that the cost of obtaining certifications of statements by independent auditors would impose a heavy financial burden on some smaller banks. Accordingly, the suggestion had been made that section 206.7(b) be amended before publication to provide that the certification for an original registration might be limited to the current balance sheet and that no certification would be required for income statements covering prior years.

Mr. Conkling added that, while this amendment actually belonged in a section of the regulation that had been issued on August 21, it could be included in section 206.7(b) prior to the filing of that section for publication in the Federal Register for comments.

Governor Robertson inquired whether the amendment might not be added when the regulation was revised prior to final approval by the Board, and Mr. Conkling responded that this would be his preference.

Mr. Hexter noted that, while the Corporation would like to have the amendment included now, there had been an indication that no serious objection would be offered with respect to its omission. He believed that in all probability such an amendment would be suggested by others and it could be included before the regulation became effective. There was general agreement with this position, and it was understood that the amendment would not be added prior to publication for comments.

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Governor Robertson observed that apparently the only point of difference between the Board and the Corporation in the proposed regulation that needed to be resolved at this time involved section 206.7(d)(20), covering the applicability of instructions for preparation of reports of condition and reports of income and dividends. As had been noted earlier in the discussion, representatives of the Corporation did not wish to include reference to reports of condition and reports of income and dividends. It appeared that there was some preference on the part of members of the Board for retaining these references and a suggestion had been made that there be a further attempt to persuade the Corporation to include a similar provision in its proposed regulation. However, since this was the only point of difference and since the staff had indicated that it was not essential to include the paragraph at this time, Governor Robertson suggested that it be deleted before publication for comments. No objection to this procedure was expressed.

The final sections of a proposed Regulation F, as modified at this meeting, were then approved unanimously for publication in the Federal Register for comment, with the understanding that a press release would be issued. A copy of the release, stating that comments on the proposed additional sections and on the sections issued August 21, 1964, would be received until October 21, 1964, is attached as Item No. 5.

Secretary's Note: The proposed additional sections of Regulation F were published in the Federal Register of Tuesday, September 15, 1964.

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Issuance of unsecured notes (Item No. 6). Pursuant to the understanding at the meeting of the Board on September 4, 1964, there had been distributed to members of the Board and to Reserve Bank Presidents a revised draft of a proposed Board statement on the issuance by banks of unsecured negotiable notes as a means of obtaining funds. As had been understood, the draft statement was discussed with the Presidents following the meeting of the Federal Open Market Committee on September 8 and, on the basis of that discussion, the statement was revised further and distributed to members of the Board.

Following a suggestion by Governor Robertson, it was agreed to change the wording of the statement to indicate that the legality of the issuance of notes of the type referred to must be determined in the light of applicable Federal and State laws and it was assumed that any bank borrowing by the means of such notes would satisfy itself that their issuance was authorized.

After discussion, during which a number of changes in wording were suggested and agreed upon, the issuance of a statement in the form attached as Item No. 6 was approved unanimously. It was understood that the statement would be published in the Federal Register and the Federal Reserve Bulletin.

During the foregoing discussion Messrs. Noyes, Adviser to the Board, Brill, Director, Division of Research and Statistics, Partee, Adviser, Division of Research and Statistics, and Daniels, Assistant Director, Division of Bank Operations, entered the room.

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Fees for special counsel at New York (Item No. 7). At the meeting of the Board on August 28, 1964, there was a discussion of a request from the Federal Reserve Bank of New York for Board approval of the payment of up to \$10,000 to special counsel in connection with pending litigation in which the Reserve Bank was seeking a reduction of the assessed valuation of its Buffalo Branch real estate and a recovery of taxes related to the alleged overassessment. The litigation involved four or more tax years, and the total amount of allegedly overpaid taxes was between \$150,000 and \$200,000. During the discussion it developed that the letter from the New York Reserve Bank regarding this matter did not provide adequate information to answer certain questions that had been raised, and it was understood that the matter would be discussed with Reserve Bank representatives before taking action. Subsequently, on September 8, the Board discussed this subject with First Vice President Treiber and General Counsel Clarke of the New York Bank and Vice President Smith of the Buffalo Branch.

Members of the Board now indicated that their questions on the Reserve Bank's request had been resolved satisfactorily. Accordingly, a letter to the New York Federal Reserve Bank authorizing the payment of fees to special counsel was approved unanimously in the form attached as Item No. 7.

The meeting then adjourned.

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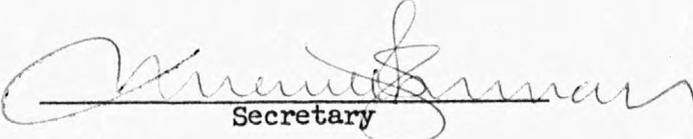
Secretary's Notes: A letter was sent to The Chase Manhattan Bank, New York, New York, on September 8, 1964, acknowledging receipt of notice of its intent to establish an additional branch in Malaysia, to be located at 9 Church Street, Kuala Lumpur.

Governor Shepardson approved on behalf of the Board on September 8, 1964, the following items:

Memorandum from the Division of Personnel Administration dated September 4, 1964, recommending that that Division be authorized to make arrangements for a second glaucoma survey of all employees over 40 years of age, to be conducted on a voluntary basis with assistance provided by the Prevention of Blindness Society. This action authorized such budget overexpenditure as might result in the Medical Services Account.

Memorandum from the Division of Data Processing recommending the appointment of Barbara Joan Butler as Draftsman-Trainee in that Division, with basic annual salary at the rate of \$4,005, effective the date of entrance upon duty.

Governor Shepardson today approved on behalf of the Board a memorandum from the Division of Data Processing recommending the appointment of Lowell M. Glenn as Analyst in that Division, with basic annual salary at the rate of \$6,630, effective the date of entrance upon duty.

  
Secretary

TELEGRAM  
LEASED WIRE SERVICE

3097  
Item No. 1  
9/9/64

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

September 9, 1964

HYDE -- RICHMOND

KEBJE

- A. Financial General Corporation, Washington, D. C.
- B. The First National Bank of Lexington, Lexington, Virginia.  
Chesapeake National Bank, Towson, Maryland, Towson, Maryland.
- C. (1) Prior to issuance of permit authorized herein, Applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (F.R.L.S. #7190), and (2) simultaneously with issuance of general voting permit authorized herein, there shall be issued to The Morris Plan Corporation, Lexington Shares, Inc., and Chesapeake Shares Corporation the general voting permits authorized in Board's telegrams of this date. STOP. Please forward to New York Reserve Bank copies of permits issued by your Bank to The Morris Plan Corporation, Lexington Shares, Inc., and Chesapeake Shares Corporation.

(Signed) Elizabeth L. Carmichael

CARMICHAEL

Definition of KEBJE

The Board authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B" at all meetings of shareholders of such bank(s), subject to the condition(s) stated below after the letter "C". The period within which a permit may be issued pursuant to this authorization is limited to thirty days from the date of this telegram unless an extension of time is granted by the Board. Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 2  
9/9/64

September 9, 1964

HYDE -- RICHMOND

KEBJE

- A. The Morris Plan Corporation, New York, New York.
- B. The First National Bank of Lexington, Lexington, Virginia.  
Chesapeake National Bank, Towson, Maryland, Towson, Maryland.
- C. (1) Prior to issuance of permit authorized herein, Applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (F.R.L.S. #7190), and (2) simultaneously with issuance of general voting permit authorized herein, there shall be issued to Financial General Corporation, Lexington Shares, Inc., and Chesapeake Shares Corporation the general voting permits authorized in Board's telegrams of this date.

(Signed) Elizabeth L. Carmichael

CARMICHAEL

Definition of KEBJE

The Board authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B" at all meetings of shareholders of such bank(s), subject to the condition(s) stated below after the letter "C". The period within which a permit may be issued pursuant to this authorization is limited to thirty days from the date of this telegram unless an extension of time is granted by the Board. Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

TELEGRAM  
LEASED WIRE SERVICE

3099

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 3  
9/9/64

September 9, 1964

HYDE -- RICHMOND

KEBJE

- A. Lexington Shares, Inc., New York, New York.
- B. The First National Bank of Lexington, Lexington, Virginia.
- C. (1) Prior to issuance of permit authorized herein, Applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (F.R.L.S. #7190), and (2) simultaneously with issuance of general voting permit authorized herein, there shall be issued to Financial General Corporation and The Morris Plan Corporation the general voting permits authorized in Board's telegrams of this date.

(Signed) Elizabeth L. Carmichael

CARMICHAEL

Definition of KEBJE

The Board authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B" at all meetings of shareholders of such bank(s), subject to the condition(s) stated below after the letter "C". The period within which a permit may be issued pursuant to this authorization is limited to thirty days from the date of this telegram unless an extension of time is granted by the Board. Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

TELEGRAM  
LEASED WIRE SERVICE

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 4  
9/9/64

September 9, 1964

HYDE -- RICHMOND

KEBJE

- A. Chesapeake Shares Corporation, New York, New York.
- B. Chesapeake National Bank, Towson, Maryland, Towson, Maryland.
- C. (1) Prior to issuance of permit authorized herein, Applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (F.R.L.S. #7190), and  
(2) simultaneously with issuance of general voting permit authorized herein, there shall be issued to Financial General Corporation and The Morris Plan Corporation the general voting permits authorized in Board's telegrams of this date.

(Signed) Elizabeth L. Carmichael

CARMICHAEL

Definition of KEBJE

The Board authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B" at all meetings of shareholders of such bank(s), subject to the condition(s) stated below after the letter "C". The period within which a permit may be issued pursuant to this authorization is limited to thirty days from the date of this telegram unless an extension of time is granted by the Board. Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

For immediate release.

September 10, 1964.

The Board of Governors of the Federal Reserve System today filed for publication in the Federal Register, and for comments by interested persons, the final sections of a proposed new Regulation with respect to "Securities of Member State Banks." The two additional sections, which are attached, are similar to proposed regulations that are being published for comment by the Federal Deposit Insurance Corporation.

Under the Securities Exchange Act of 1934, as recently amended, banks with 750 or more of holders of one class of stock must register such stock with the appropriate Federal bank supervisory agency. In the case of State chartered banks that are members of the Federal Reserve System, this and related provisions of the amended Securities Exchange Act are administered by the Board of Governors of the Federal Reserve System.

On August 21, the Board issued its proposed Regulation, with the exception of the two sections released today. The first of the additional sections deals with "Reports of Directors, Officers, and Principal Stockholders." It relates to section 16 of the Securities Exchange Act, which requires the directors, officers, and large stockholders of a corporation with registered securities to file reports

of their holdings, purchases, and sales of the company's stock.

Section 16 permits a corporation to recover profits realized by such "insiders" from short-term purchase/sale transactions in its stock.

The last section of the proposed Regulation relates to the "Form and Content of Financial Statements." It specifies requirements as to accounting procedures and forms to be observed by banks in connection with registration statements and supplementary reports to be filed with the Federal Reserve Board for public inspection.

Like those previously released, these sections are designed to stimulate study by bankers and others and to elicit suggestions for revision that would result in regulations effectuating the purposes of the Securities Exchange Act without imposing unnecessary burdens and expense upon the banking industry.

Comments on the proposed additional sections of the Regulation may be submitted to the Board not later than October 21, and comments on the sections of the proposed Regulation issued August 21 also will be received until October 21. Copies will be available for inspection at the offices of the Federal Reserve Banks throughout the country.

Attachments.

Item No. 6  
9/9/64

For immediate release

September 9, 1964.

Questions have been raised regarding the application of Federal Reserve Regulation D (Reserves of Member Banks) and Regulation Q (Payment of Interest on Deposits) to unsecured negotiable notes issued by member commercial banks as a means of obtaining funds.

Since they constitute borrowings, such notes are not subject, under present law and regulations, to the interest rate limitations or reserve requirements prescribed for deposits by the Board of Governors.

The legality of the issuance of notes of the type referred to must be determined in the light of applicable Federal and State laws, and it is assumed that any bank borrowing by means of such notes will satisfy itself that their issuance is authorized. Borrowings of this type would, of course, be so identified in financial statements and call reports and added to all other borrowings in the application of statutory or other limitations on the total amount of debt a bank may incur. Any liabilities thus incurred by a bank would increase the necessity for maintaining an adequate cushion of liquidity and equity capital.

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BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 7

9/9/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 9, 1964.



Mr. John J. Clarke,  
Vice President and General Counsel,  
Federal Reserve Bank of New York,  
New York, New York. 10045

Dear Mr. Clarke:

In response to your letter of August 20, 1964, you are advised that the Board has approved your request for authorization of legal fees, not to exceed the sum of \$10,000, to the firm of Ohlin, Damon, Morey, Sawyer and Moot in connection with the pending litigation to secure a reduction of the assessed valuation of the Buffalo Branch real estate and a recovery of the taxes related to the overassessment.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.