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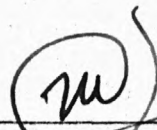
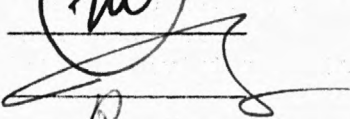
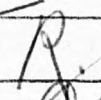
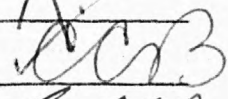
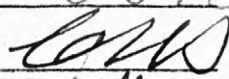
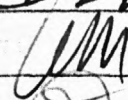
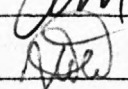
Minutes for October 7, 1964

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	<u></u>
Gov. Mills	<u></u>
Gov. Robertson	<u></u>
Gov. Balderston	<u></u>
Gov. Shepardson	<u></u>
Gov. Mitchell	<u></u>
Gov. Daane	<u></u>

Minutes of the Board of Governors of the Federal Reserve System
on Wednesday, October 7, 1964. The Board met in the Board Room at
10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Broida, Assistant Secretary
Mr. Bakke, Assistant Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Noyes, Adviser 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. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Koch, Associate Director, Division of
Research and Statistics
Mr. Partee, Adviser, Division of Research
and Statistics
Mr. Dembitz, Associate Adviser, Division of
Research and Statistics
Mr. Furth, Adviser, Division of International
Finance
Mr. Conkling, Assistant Director, Division of
Bank Operations
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Smith, Assistant Director, Division of
Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Thompson, Assistant Director, Division of
Examinations

1/ Joined meeting at point indicated in minutes.

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Mrs. Semia, Technical Assistant, Office
of the Secretary
Mr. Robinson, Attorney, Legal Division
Mr. Eckert, Chief, Banking Section, Division
of Research and Statistics
Mr. Ettin, Economist, Division of Research
and Statistics
Mr. Collier, Assistant to the Director, Division
of Bank Operations
Mr. Donovan, Review Examiner, Division of
Examinations
Mr. Lyon, Review Examiner, Division of Examinations
Mr. Poundstone, Review Examiner, Division of
Examinations
Mr. Smith, Review Examiner, Division of
Examinations

Application of Yampa Valley Corporation (Item No. 1). There had been distributed a memorandum dated September 30, 1964, from the Division of Examinations regarding the application of Yampa Valley Corporation, Littleton, Colorado, for a determination exempting it from all holding company affiliate requirements except those in section 23A of the Federal Reserve Act. Attached to the memorandum was a draft of letter that would express the Board's approval of the application.

The letter was approved unanimously. A copy is attached as Item No. 1.

International Banking Corporation (Items 2 and 3). At its meetings on July 24, September 1 and 2, and October 6, 1964, the Board discussed what nature of reply should be made to a request by Chairman James S. Rockefeller of First National City Bank, New York, New York, in a letter of June 24, 1964, for amendment of the agreement under which

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First National City's subsidiary, International Banking Corporation, was operating pursuant to section 25 of the Federal Reserve Act. Mr. Rockefeller's letter had expressed a desire that the agreement be revised in such a way as to place foreign subsidiaries of International Banking Corporation on an operating basis comparable to that of direct foreign branches of First National City Bank. In particular, he cited the fact that International Banking Corporation's subsidiary, First National City Trust Company (Bahamas) Limited, could extend a credit line to any one borrower equal to no more than 10 per cent of the capital and surplus of International Banking Corporation, or \$1,200,000, whereas a direct branch of First National City Bank could lend up to 10 per cent of the capital and surplus of the parent bank (or about \$68,600,000 to any one borrower). The lending limit of First National City Trust Company apparently was found onerous especially with respect to a loan in United States dollars to Pegasus Fund Ltd., a Bahamian company.

After the October 6 discussion, a revised draft of reply had been distributed that would attach an agreement amended to conform to the September 1, 1963, revision of Regulation K, Corporations Engaged in Foreign Banking and Financing under the Federal Reserve Act, and would suspend the provisions of the Board's letter of October 21, 1960, to International Banking Corporation, in which the Board granted consent to purchase and hold shares of First National City Trust, so far as they related to restrictions on loans granted in the Bahamas in the

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currency of the country. The last paragraph of the draft reply would take the position that no conflict with the conditions in the Board's letter of October 21, 1960, was presented by transactions which, although in dollars rather than the local currency of the Bahamas, were fully secured by hypothecation of dollars on deposit in the trust company and hence represented no credit exposure but essentially utilization of the depositor's own funds (these were the circumstances of the Pegasus loan).

Governor Mills stated that he would approve the letter.

Governor Robertson indicated that he would dissent. In his view, the proposed reply was not based on sufficient information to provide a thorough understanding of the situation, and he believed that the restrictions that the letter proposed to suspend had never applied.

Mr. Solomon commented that the intention was to grant exclusions from initially-imposed conditions, similar to the exclusions that the Board had previously allowed with respect to the operation of International Banking Corporation's subsidiaries in Liberia, South Africa, and Canada.

Governor Daane suggested a change in language in the third paragraph that would bring out that intention more clearly. With that change, he would approve the letter, except for the last paragraph, which he would disapprove.

Governor Shepardson expressed acceptance of the letter, including the last paragraph, but with the revised language suggested by Governor Daane as to the exclusion.

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Governor Mitchell said that, like Governor Daane, he would approve the letter with the deletion of the last paragraph, and with the change in language that Governor Daane had suggested regarding the exclusion.

Chairman Martin joined the meeting at this point, and Governor Balderston reviewed for his benefit the status of the matter under consideration.

Governor Balderston stated that he would have been willing to approve the letter without the last paragraph in order to avoid a tie vote with consequent further delay in disposing of the matter. He did not feel strongly as to inclusion or exclusion of the last paragraph except that, as Governor Mitchell had mentioned during yesterday's discussion, it would seem preferable that the guidelines set by the Board be of general application and not directed toward specific transactions. The imminence of a tie vote being removed, however, Governor Balderston's inclination was toward the more liberal position, which would be represented by inclusion of the last paragraph of the letter, which would hold that circumstances such as were involved in the Pegasus loan did not conflict with the Board's letter of consent.

Governor Shepardson remarked that without the last paragraph the letter would not be responsive to the request from Mr. Rockefeller, who had referred to the limitation on the Pegasus loan as a case in point. It would seem that the letter should not omit reference to

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circumstances such as that loan involved, whether the Board took a favorable or unfavorable position with regard to them.

Mr. Solomon asked that in any event the Board give some guidance to the examining staff as to the treatment to be accorded such loans. It would be difficult for an examiner to give such a loan an adverse classification, since it did not involve a risk.

After further discussion, Chairman Martin stated that he would approve the letter, including the last paragraph, and with the revised language in the third paragraph as to the exclusion.

The letter was thereupon approved in the form attached as Item No. 2, Governors Robertson, Mitchell, and Daane dissenting.

Mr. Goodman inquired if the position reflected in the action just taken by the Board was to be applied to other situations of a similar nature - notably, to the terms under which Chase Manhattan Overseas Banking Corporation (an Edge corporation subsidiary of The Chase Manhattan Bank, New York, New York) held shares of The Chase Manhattan Trust Corporation Limited, Nassau, Bahamas.

In response, the Board indicated that the position taken was to be applied to any similar situation.

Secretary's Note: A letter reflecting this indication by the Board was sent to Chase Manhattan Overseas Banking Corporation in the form attached as Item No. 3.

Messrs. Goodman, Shay, and Poundstone then withdrew from the meeting.

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Application of Commercial Bancorp. There had been distributed a memorandum dated August 3, 1964, along with other pertinent papers, regarding the application of Commercial Bancorp, Inc., Miami, Florida, to become a bank holding company through acquisition of 80 per cent or more of the voting shares of Commercial Bank of Miami and Merchants Bank of Miami, both of Miami, Florida, and of Bank of Kendall, Kendall, Florida. In summary of the reasons upon which its recommendation of approval was based, the Division of Examinations stated, among other things, that it concurred generally in the conclusion of the Federal Reserve Bank of Atlanta that the convenience and needs factor could be regarded as lending little support for approval, although the Division felt that circumstances related to that factor were not inconsistent with approval. In the light of the existing effective control of the three banks by one individual, the Division did not believe that any significant competition would be eliminated among them. Also, after consideration of all other factors involved, and the size of the proposed holding company, the Division believed that approval would not militate against sound banking or be inimical to the public interest.

At the invitation of the Board, Mr. Smith (Review Examiner) commented on the salient circumstances bearing upon the application, after which Governor Mitchell, observing that there was an indication that bank stocks owned by the principal stockholder of the three banks were "thought to be pledged to Florida National Bank of Miami," asked

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if it might follow that Florida National had an interest in the proposed transaction, possibly as presenting an opportunity to add the banks to its group. Response was made that there were no circumstances that pointed to a possible effort by Florida National to gain control of the three banks. Other questions asked by Governor Mitchell related to the loan portfolios of the proposed subsidiary banks, to certain loans made to directors, and to investments by the banks in shares of savings and loan associations.

Governor Robertson also questioned the relationship between the banks and the savings and loan associations, pointing out that the chairman of one of the associations was the principal stockholder of the three banks.

Governor Daane remarked upon the lack of a strong affirmative in the appraisals of the factors required to be considered; with the findings in such mild terms as "not adverse" and "not inimical to the public interest," he wondered what there was to support a decision of approval. In response, Mr. Solomon commented that a number of cases that came before the Board were essentially neutral, and in such a situation the posture of the Board had been to avoid interfering with the plans of the proponents. In all cases, of course, the proponents asserted that public benefits would be derived from the proposal, and it was conceivable that the Board's staff was unduly skeptical of such claims. In essence, the attitude of the Division of Examinations in

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neutral cases was that, if nothing adverse was found even by taking the most critical point of view, approval would be recommended.

Governor Daane observed that the memorandum seemed to suggest that the Federal Reserve Bank of Atlanta and the Division of Examinations dismissed the claims of possible advantages. Mr. Solomon replied that his personal feeling was that there was some advantage in formalizing the control under which the three banks operated. The simplified and more efficient holding company control, with a clearly-defined subsidiary relationship that was easier to administer than a loose aggregation of banks coordinated through ownership, might result in some benefits to the public.

Mr. O'Connell pointed out that in neutral applications the restrained phrases appraising the statutory factors were malleable; their role in explaining a decision of approval shifted in importance from one supporting statement to another. He cited language used in the past and to be used in the draft of a forthcoming statement that illustrated his point. Over-all, there had been and would be statements that made some slight concession to debatable claims of public benefits, but the Board's general position had been that such benefits were minimal or, if they were realized, would tend to inure to the advantage of the holding company rather than of the public, and therefore they did not constitute strong support, or afforded only slight support, for approval.

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Chairman Martin then called upon the members of the Board for expressions of their views, in response to which Governor Mills stated that he would approve for the reasons cited by the Division of Examinations, and for the supplemental reasons reflected in Mr. Solomon's remarks regarding neutral cases. If this was looked upon as such a case, and no reason was found to deny the wishes of the organizers of the proposed holding company, Governor Mills believed those wishes should be respected. Also, there was an advantage in the holding company form of organization from the bank supervisory point of view. The three intended subsidiary banks were nonmember insured banks. While they were thus subject to examination and supervision by the Federal Deposit Insurance Corporation, their control by a bank holding company would subject them to an additional layer of Federal supervision. He believed that this additional supervision would be desirable in the light of the reservations inherent in the background material, even though not strongly expressed, regarding the principal stockholder's promotional tendencies and the relationships of the banks with the savings and loan association of which he was chairman. Moreover, with branches prohibited, the banking structure of Florida had turned toward group banking, and he would regard it as salutary if this group of banks, though small, were brought under the Board's jurisdiction.

Governor Robertson said that he would concur with the recommendation, on the same grounds that Governor Mills had indicated. The

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three banks were already tied together, and he (Governor Robertson) did not see enough objection to require dissent. However, he would want to see the terms of the majority statement, in the event of approval, before he decided whether or not he wished to file a concurring statement.

Governor Shepardson indicated that he also concurred in the recommendation.

Governor Mitchell indicated that he would approve, since he subscribed to the principle that, if the proposal would not be against the public interest, the organizers should be able to consummate their plan. However, he regarded the information presented as inadequate in some respects. He had the feeling that the granting of bank holding company status conveyed an element of prestige that it might later be wished had not been conveyed.

Governors Daane and Balderston and Chairman Martin also said that they would approve.

The application of Commercial Bancorp was thereupon approved unanimously, it being understood that the Legal Division would draft for the Board's consideration an order and statement reflecting this decision.

Messrs. O'Connell, Thompson, Leavitt, Robinson, Donovan, Lyon, and Smith (Review Examiner) then withdrew from the meeting.

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Reserve deficiencies (Item No. 4). The question of procedures relating to deficiencies, or possible deficiencies, in reserves held by the Reserve Banks against their deposit and note liabilities was discussed by the Board on November 29 and December 2, 1963, and at a joint meeting of the Board with the Presidents of the Federal Reserve Banks on December 3, 1963. The consensus developed by these discussions was that, for the time being, in addition to the adjustments that had been made in the then recent past in the allocation of the System Open Market Account to avoid deficiencies on statement dates, similar "as of" adjustments should be made on dates other than statement dates; it was understood that the subject would be reviewed again in 1964.

There had been distributed a memorandum dated April 10, 1964, from the Division of Bank Operations, in which the types of problems encountered under present procedures were reviewed. Under the present arrangements, security holdings in the System Open Market Account were regularly reallocated each statement date to equalize the gold certificate reserve ratios of the Federal Reserve Banks; daily transactions paid for through the Interdistrict Settlement Fund seriously disturbed the equilibrium achieved through the regular reallocations; and special reallocations had to be made "as of" the previous day when the disturbances were severe enough to cause a reserve deficiency at one or more Banks. Three possible alternative courses of action would be (1) to continue the weekly reallocations, but discontinue the special intra-weekly adjustments

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as of the previous day and thus let intra-weekly deficiencies occur (this proposal had been considered and rejected at the December 3, 1963, meeting); (2) to continue the weekly reallocations and the special intra-weekly adjustments as of the previous day to the extent that the latter might be necessary to avoid deficiencies (this was the procedure now being followed); or (3) to make daily, instead of weekly, reallocations. Although the third alternative would delay the closing of the books each day at the various Reserve Banks, and would cause additional work at the Board and at the New York Bank, it appeared to afford the best hope of avoiding deficiencies without other major changes. Operating details for the third alternative were set out in the memorandum.

The fact that daily reallocations of securities would have the effect of largely reversing the results of the clearings through the Interdistrict Settlement Fund, the memorandum continued, suggested that an easier way of avoiding deficiencies in required reserves would be to prevent the clearings from disturbing the gold reserve ratios of the individual Banks. This could be done by settling the clearings directly through the security holdings, instead of through the gold holdings and then reversing the results by reallocating the securities.

If this plan were put into effect, gold certificate holdings would be initially distributed (by a reallocation of security holdings) in such a way as to provide each Bank with the best possible cushion against its reserve requirements for note and deposit liabilities.

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Thereafter, the gold certificate holdings of the individual Banks would remain unchanged until gold transactions or continuing trends in note and deposit liabilities necessitated an adjustment to reestablish equilibrium in the gold reserve ratios, which would probably not be necessary more often than quarterly unless and until System gold holdings dropped considerably below their present level. The holdings of securities in the System Open Market Account would be used for daily settlements of interdistrict transactions. The transition to daily settlements in securities could be accomplished with a minimum of change in the present Interdistrict Settlement Fund procedures. The Reserve Banks would increase or decrease their holdings of securities, instead of gold certificates, according to the daily Settlement Fund wire. The Division of Bank Operations would maintain a ledger control of such holdings, just as it now did with the Interdistrict Settlement Fund balance reflecting gold certificate holdings.

The memorandum continued with other suggested operating details, pointed out certain advantages the plan would have (including the fact that there was in securities holdings a margin of \$5.4 billion to take care of fluctuations in clearings, compared with a margin of \$2.4 billion in gold holdings), suggested questions that might arise, and concluded with the recommendation that the proposal be submitted to the Federal Reserve Banks for comments.

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There had also been distributed a memorandum dated July 24, 1964, from Mr. Hackley regarding the legality of allocations of Government securities in the System Open Market Account to avoid Reserve Bank reserve deficiencies. On the basis of an extensive analysis, Mr. Hackley expressed the opinion that (1) the law does not expressly prohibit transfers of particular assets between Federal Reserve Banks, as provided by the present allocation procedure, in order to avoid reserve deficiencies; on the contrary, such transfers might be regarded as a legitimate means of achieving compliance with Reserve Bank reserve requirements; (2) the Federal Open Market Committee has statutory authority to determine the basis upon which securities in the System Account shall be allocated, and the basis provided in the present allocation procedure is therefore to be regarded as valid unless clearly contrary to some provision of law; and (3) transfers of assets among the Reserve Banks, including allocations of Government securities in the System Account, had been regarded since the earliest years of the System as an appropriate means of equalizing the reserve positions of the Reserve Banks and avoiding reserve deficiencies; and Congress had been aware of, and had not objected to, the System's long-established practice in this respect.

At the Board's invitation, Mr. Conkling commented on the proposal that interdistrict clearings be settled through reallocation of Government security holdings rather than of gold holdings.

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Governor Mills stated that he had taken exception to the present procedure, and that he took even stronger exception to the proposal now advanced, which he did not regard as straightforward accounting for Federal Reserve Bank deficiencies in gold accounts. He believed that accounting should follow the spirit of the law and should subject deficiencies to the penalties provided, and that if deficiencies were widespread among the twelve Reserve Banks, with a breach in the 25 per cent reserve requirement, there should be a suspension of requirements. In his view, the law provided a disciplinary factor that the Board had a responsibility to hold in regard. Although he was not a lawyer, he could not accept the conclusion of the Legal Division that the proposal would be legally permissible. Certainly it would contravene the spirit of the law and would raise the same sort of criticism that had been brought against the System for not seeking Congressional approval for a franchise tax but instead being a party to what he regarded as almost a subterfuge, namely, paying interest on Federal Reserve notes as a vehicle for transferring Federal Reserve Bank earnings into the Treasury. As he saw it, the present proposal had the same quality of subterfuge and was not becoming to a body such as the Board.

Governor Robertson expressed himself in favor of sending the proposal to the Federal Reserve Banks for comment. He was not sure it provided the right answer, but it did offer a possible simplification of procedure for avoiding reserve deficiencies at individual Reserve Banks so long as the System as a whole was able to meet the 25 per cent

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statutory requirement. After the views of the Reserve Bank Presidents were obtained, the Board could consider it again.

Governor Shepardson said that he concurred generally with Governor Robertson's view. As Governor Shepardson saw it, from the standpoint of conforming to the law a more or less artificial adjustment was being made at the present time. It seemed to him that as long as total requirements for all Reserve Banks combined were met, whatever adjustment was necessary among the individual Reserve Banks was primarily a matter of form. He would be glad to hear what the Reserve Banks thought of the proposal suggested by the Division of Bank Operations.

Governor Mitchell commented that he thought the proposed procedure probably would be better than the one now in use. While he had a great deal of sympathy with the exceptions taken by Governor Mills and would prefer that, rather than prevent deficiencies, they be allowed to occur with consequent assessment of penalties, he was in favor of asking the views of the Presidents regarding the new proposal.

Governor Daane said that he saw no harm in asking the Presidents for their views.

Governor Balderston stated that, while Governor Mills had raised a good point, as the System now functioned in world affairs he (Governor Balderston) believed that both at home and abroad people looked upon the System as the central banking system of the country - a single unit rather than a group of individual Reserve Banks. If the really essential

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thing at the moment was that the dollar be protected, and that the possible breaching of the 25 per cent gold cover be regarded as a problem for the System rather than just for one of its constituent parts, then it would be well at least to explore alternative procedures for applying the requirement to the over-all System. He would favor sending the proposal to the Reserve Bank Presidents for comment.

Chairman Martin remarked that, while he could argue both sides of the question, he thought it would be helpful to hear the reaction of the Presidents. In his view, all of the members of the Board would have to give deep thought to this problem, and it would be well to get the Presidents' views before any final conclusion was reached.

Pursuant to the majority view expressed during the foregoing discussion, a letter was sent to the Federal Reserve Bank Presidents on October 16, 1964, in the form attached as Item No. 4, transmitting for their comments the memoranda dated April 10, 1964, from the Division of Bank Operations and dated July 24, 1964, from the Legal Division. In taking this action the Board noted Governor Mills' objections in principle to any procedure for applying the statutory reserve requirement to all Reserve Banks combined rather than to individual Banks, as contemplated in the Federal Reserve Act.

Mr. Smith then withdrew from the meeting.

Frequency of Open Market Committee meetings. There had been distributed a memorandum dated July 24, 1964, in which Mr. Brill discussed

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a suggestion made by President Hayes of the Federal Reserve Bank of New York that the meetings of the Federal Open Market Committee be held monthly rather than at three-week intervals as at present. Attached to the memorandum were schedules showing how the meeting dates would fall in 1965 according to various guides for placement within the month; all of these schedules resulted in a four-week interval between meetings about two-thirds of the time and a five-week interval for the remainder of the time. Also attached to the memorandum was a chart showing the times during the month when various statistics became available. On balance, it appeared that meetings after the third week of the month would have available more major series than would earlier meetings. However, whenever in the month meetings were held, the staff would be obliged to estimate the current economic situation, and while availability of statistics thus might argue to some extent for a shift in meeting dates, it was not an overpowering reason. The memorandum also discussed the argument that a monthly meeting would mesh better with Treasury financing in that it would reduce the number of occasions when the Committee would be locked in to an even-keel position. However, since a change in the number of meetings would not change the number of weeks for which the Committee would be locked in, that argument was valid only if it was deemed undesirable to write a split directive, i.e., one specifying a change in policy to become effective during an inter-meeting period, say, after Treasury financing was completed. If split

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directives were not desirable, the whole concept of extending the time period between meetings was brought into question; the longer the interval between meetings, the greater the importance of recognizing the possibility of a need for a shift in policy between meetings. After weighing other considerations relating to a possible change in the pattern of meeting dates, Mr. Brill concluded his memorandum by expressing the view that the only indisputable argument was wear and tear on personnel for frequent meetings, especially on those persons who had to travel great distances.

In introductory comments made at the invitation of the Board Mr. Brill said that in his opinion the advantages claimed for a monthly meeting schedule tended to be overstated in terms of availability of statistics and burden on the staff. Superficially, the idea of moving from 17 or 18 to 12 meetings a year was attractive to a staff that had a heavy work-load; but there would be four periods a year when the interval would be five weeks, and since interim statistics would probably then be desired, the staff burden would not be greatly decreased. Perhaps the physical tax on Reserve Bank personnel, especially those who had to make long trips, might be a more important consideration.

Governor Mitchell commented on the recent study of the directive of the Federal Open Market Committee. In connection with that study, consideration had been given to the day of the week on which meetings were to be held. The conclusion had been that Tuesday, when meetings

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were now held, was the best day. In the course of these discussions Governor Mitchell had come to a strong view that it was unfortunate to have a Committee meeting on a Tuesday that followed a holiday on Friday or Monday; there was then insufficient time to get statistics and other information into the hands of participants.

Governor Daane emphasized the importance of the physical burden of travel. This was a problem he had lived with, and had found it a difficult one, even though he had had to contend only with the relatively short distance from Richmond to Washington. If meetings were spaced farther apart, the wear and tear of travel would be somewhat reduced.

Chairman Martin agreed that the burden of travel was an important consideration. Over-all, his view was that there should be as many meetings as could be used profitably, but no more than that. The bringing together of participants from all over the country provided a valuable liaison that could not be achieved in any other way. He still leaned to the view that a schedule of meetings every three weeks was about as close to the maximum of efficiency as could be obtained. He regarded Governor Mitchell's point about holidays as extremely good. Also, it was desirable to arrange the schedule for the entire year, with any changes in pattern that were agreed upon, at the beginning of the year so that participants could frame their other plans accordingly as far as possible.

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Governor Mills indicated that he had no strong preference, but, marginally, would lean to the three-week interval.

Governor Robertson remarked that he was not persuaded that the three-week interval was not the best choice.

Governor Shepardson commented on the desirability of projecting for the coming year the pattern decided upon, with any adjustments necessary, such as for holidays. He believed that relative frequency of meetings was desirable, and that there was not a persuasive argument for changing the present three-week interval.

Governor Balderston concurred with Governor Mitchell's point as to holidays. Consideration for the health of the participants, mentioned by Governor Daane, might weigh in favor of President Hayes' suggestion for monthly meetings, and another favorable argument for that suggestion was the possibility that a four-week interval might enable the staff of both the Board and the Reserve Banks to do a more thorough job on background material. A consideration against the suggestion, Governor Balderston believed, was the fact that these times were full of problems. It had occurred to him that there might be a compromise between a schedule of 12 meetings and one of 17 that would also take account of the problem of holidays. At some times during the year meetings every three weeks were timely, but at holiday seasons the pace of the economy and the work of the System slowed somewhat. If meetings were set at three-week intervals as a general rule, but when a holiday

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occurred the ensuing meeting not be merely set back within the same week but postponed to the following week, the result would be to reduce somewhat the total number of meetings.

Governor Daane expressed agreement with Chairman Martin's remark relating to the benefits of personal assemblage; it provided a synthesizing force that strengthened the System. However, Governor Balderston had made a discerning observation that there were times when it was known in advance that a meeting would be relatively pro forma, while at others banking and credit developments were such that meetings more frequent than every three weeks would be useful. Governor Daane suggested that as an experiment a schedule might be set up for six months on the basis outlined by Governor Balderston.

Governor Mills commented that if a monthly schedule were adopted, there would be no reason why an intervening meeting might not be called, except that the public - the financial press in particular - was accustomed to three-week intervals. If a monthly schedule was adopted and then it was found desirable to hold an interim meeting, the press would raise questions as to what the emergency was and the market might be disturbed.

During further discussion the possibility of future resort to closed circuit television for meetings was mentioned, and comments were made on the present stage of technological developments and the extent to which that medium was being adopted as a means of business communication.

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Problems relating to particular dates for meetings were cited, and references were made to the extent to which added distance increased flight time and other travel burdens.

At the conclusion of the discussion the staff was requested to prepare for the Board's consideration a schedule of meeting dates during 1965 based primarily on three-week intervals between meetings, but with adjustments reflecting the suggestions made during today's meeting.

Mr. Axilrod, Chief, Government Finance Section, Division of Research and Statistics, then joined the meeting.

Reserve requirements. There had been distributed memoranda from Mr. Brill dated September 21 and October 6, 1964, presenting various information and statistical projections bearing on the question whether 1964 seasonal reserve needs should be met through open market operations, or whether at least a part of the needed reserves should be provided by reducing member bank reserve requirements. The question was explored from the points of view of impact on bank portfolios, the Treasury bill market, alternative forms of reserve requirement reductions, related problems of gold reserve requirements, profitability of member banks, the possibility that reserve requirement legislation might be proposed, operating problems, application of any reduction that might be made in requirements to the deposit structure, and the timing and magnitude of reserve needs.

10/7/64

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During the course of discussion, which, it was emphasized, was not intended to lead to any action at today's meeting, Governors Balderston, Mills, and Robertson read prepared statements of their views, copies of which have been placed in the Board's files. The scope of comments extended to appraisals of reserve requirements as the choice of instruments to be employed, the incidence of effects of employing that instrument, practical realities as contrasted with ideal measures, possible alternatives in the area of fiscal rather than monetary policy, the magnitude of the gold problem as an element in the decision to be made, the use of reserve requirement action from the standpoint of possible needed revision of the Board's statutory powers, considerations of public psychology, probable stresses in the money supply, and the timing of any action that might be taken.

At the conclusion of the discussion Chairman Martin asked that copies of the statements read by Governors Balderston, Mills, and Robertson be furnished to the other members of the Board.

Mr. Noyes asked if there would be any objection to apprising Reserve Bank economists of the tenor of the Board's thinking, in order that they might assemble information that would make coming discussions by the Board with the Reserve Bank Presidents more fruitful. The response indicated a general view that information relating to the discussion should be confined to the Board and its staff for the time being.

The meeting then adjourned.

10/7/64

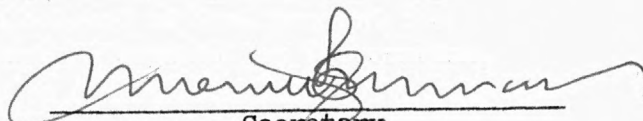
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Secretary's Note: Governor Shepardson today approved on behalf of the Board memoranda recommending acceptance of the resignations of the following persons on the Board's staff, effective the dates indicated:

Thomas J. Farmer, Cafeteria Laborer, Division of Administrative Services, effective at the close of business October 9, 1964.

Gretchen Walrath, Clerk-Stenographer, Division of Research and Statistics, effective at the close of business October 21, 1964.

Catherine Zambri, Clerk-Stenographer, Division of Research and Statistics, effective at the close of business October 21, 1964.


Secretary



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

3441
Item No. 1
10/7/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 7, 1964

Mr. R. E. Johnson, President,
Yampa Valley Corporation,
Littleton, Colorado.

Dear Mr. Johnson:

This refers to the request contained in your letter of September 21, 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 Yampa Valley Corporation, as a holding company affiliate.

From the information presented, the Board understands that the object and purpose of Yampa Valley Corporation are activities pertinent or appertaining to the insurance, banking, real estate, and construction business; that it is a holding company affiliate by reason of the fact that it owns 1,233 (61.7 per cent) of the 2,000 outstanding shares of stock of The Moffat County State Bank, Craig, 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 Yampa Valley 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. R. E. Johnson

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If, however, the facts should at any time indicate that Yampa Valley 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

3443
Item No. 2
10/7/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 7, 1964.

Mr. James S. Rockefeller,
Chairman,
First National City Bank,
399 Park Avenue,
New York, New York.

Dear Mr. Rockefeller:

This refers to your letter of June 24, 1964 to Chairman Martin regarding the review of the Agreement under which your subsidiary, International Banking Corporation ("IBC"), is operating pursuant to Section 25 of the Federal Reserve Act.

Regulation K, as revised effective September 1, 1963, provides in Section 211.10, "Corporations with Agreements under Section 25 of the Act," that no Corporation having such an agreement shall purchase or hold any asset or otherwise exercise any power in the United States or abroad in any manner not permissible for a Corporation (organized and operating under Section 25(a) of the Federal Reserve Act) engaged in banking. To conform to the revised Regulation K, the outstanding Agreement (as amended through December 6, 1955) is hereby amended, effective immediately, to read as shown in Attachment A to this letter.

Your letter of June 24 also related to conditions set forth in Board letters granting consent to IBC to acquire shares of the various foreign banks and trust companies named in your letter. The Board has granted certain exceptions from those conditions so far as they relate to loans made in the local currency of the respective countries (Liberia, South Africa, and Canada) where neither IBC nor First National City Bank had any branch. No such exception was made by the Board's letter of October 21, 1960, granting consent for IBC to purchase and hold shares of First National City Trust Company (Bahamas) Limited, as First National City Bank operates a direct branch in Nassau. However, an exception of this kind is granted in respect to the provisions of the Board's letter of October 21, 1960, so far as they relate to restrictions on loans granted in the Bahamas in the currency of the country.

Mr. James S. Rockefeller

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A related matter involves transactions which, although in dollars rather than the local currency of the Bahamas, were fully secured by hypothecation of dollars on deposit in the Trust Company and hence represented no credit exposure but essentially utilization of the depositor's own funds. In the circumstances, the Board is of the opinion that the transactions do not conflict with the conditions in the Board's letter of October 21, 1960.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure: Attachment A.

REGULATIONS (AS AMENDED THROUGH OCTOBER 7, 1964)
APPLICABLE TO INTERNATIONAL BANKING CORPORATION
UNDER SECTION 25 OF THE FEDERAL RESERVE ACT

Prescribed by the Board of Governors of the Federal Reserve System

In consideration of the granting by the Board of Governors of the Federal Reserve System (the "Board"), under the provisions of Section 25 of the Federal Reserve Act (the "Act") and pursuant to an application heretofore filed with the Board by First National City Bank, New York, New York, of permission to acquire and hold stock of International Banking Corporation (the "Corporation"), the Corporation, in accordance with the provisions of said Section 25 of the Act, hereby undertakes and agrees with the Board that it shall comply in all respects (except as to organizational procedure) with the requirements of Section 25(a) of the Act and Regulation K as if organized and engaged in banking thereunder.

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

Item No. 3
10/7/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 5, 1964.



Chase Manhattan Overseas Banking Corporation,
One Chase Manhattan Plaza,
New York, New York. 10005

Gentlemen:

Reference is made to the Board's letter of December 16, 1960, to The Chase Manhattan Bank ("CMB") granting permission for Chase Manhattan Overseas Corporation ("CMOC") to purchase and hold the stock of The Chase Manhattan Trust Corporation Limited, Nassau, Bahamas.

In a recent similar situation, the Board excepted, from the conditions on which its consent to an investment was made, loans granted in the particular foreign country involved in the currency of that country. This had been done also with respect to Banco Hipotecario Lar Brasileiro, S. A., and Banco Mercantil y Agricola by the Board's letters to CMB of February 14, 1962, and May 2, 1962, respectively.

Accordingly, an exception of this kind is granted with respect to the provisions of the Board's letter of December 16, 1960, by amending that letter to include at the end thereof the following additional paragraph:

"Subject to continuing observation and review, the Board suspends until further notice the provisions of subparagraph (1) of the fourth paragraph of this letter, so far as they relate to restrictions on loans granted by The Chase Manhattan Trust Corporation Limited in the Bahamas in the currency of that country."

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

3447
Item No. 4
10/7/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 16, 1964.

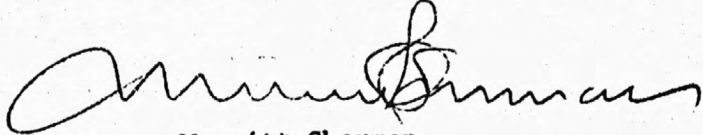
Dear Sir:

At the joint meeting of the Board and the Presidents on December 3, 1963, there was a discussion of the procedures for allocating securities in the System Open Market Account. The discussion included particularly the question whether it was desirable as a matter of System policy to have as an objective the avoidance of deficiencies in the reserves of any individual Reserve Bank, so long as combined System gold certificate reserves exceeded the statutory minimum of 25 per cent. The alternative, of course, would be a procedure under which an individual Reserve Bank might incur a deficiency and pay penalty taxes for such deficiency in accordance with Board letter S-865, F.R.L.S. 5883, dated July 30, 1945, even though the combined System reserves exceeded the 25 per cent minimum.

The Board's Division of Bank Operations prepared a memorandum under date of April 10, 1964, in which there was suggested for consideration a procedure for settling of clearings through the Inter-district Settlement Fund directly through security holdings, instead of through gold holdings. In accordance with the Board's request, a copy of that memorandum is being transmitted herewith to each Reserve Bank president. The Board will appreciate receiving comments that your Bank may have with respect to the desirability and feasibility of a plan such as that envisaged in the memorandum. The Board will also appreciate receiving your views on whether, as a matter of System policy, actions should be directed toward avoiding a deficiency in reserves at any individual Reserve Bank so long as all Banks combined may have sufficient gold certificates to meet the statutory requirement.

For your information there is also enclosed a memorandum prepared by the Board's General Counsel under date of July 24, 1964, commenting on the legal aspects of the use of a procedure for allocating securities in the System Open Market Account which would have as its objective the avoidance of a deficiency at any individual Reserve Bank so long as the reserve ratio for the twelve Federal Reserve Banks combined equaled or exceeded 25 per cent.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman".

Merritt Sherman,
Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS