

Minutes for November 4, 1964

To: Members of the Board

From: Office of the Secretary

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

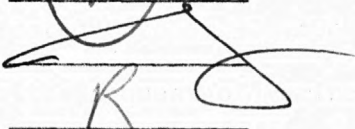
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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

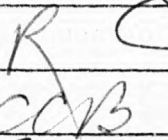
Chm. Martin



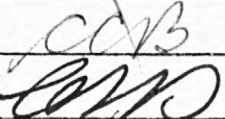
Gov. Mills



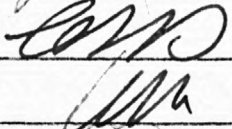
Gov. Robertson



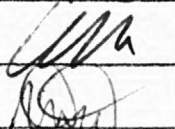
Gov. Balderston



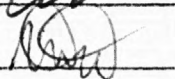
Gov. Shepardson



Gov. Mitchell



Gov. Daane



Minutes of the Board of Governors of the Federal Reserve System on Wednesday, November 4, 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. Sherman, Secretary  
Mr. Molony, Assistant to the Board  
Mr. Fauver, Assistant to the Board  
Mr. Solomon, Director, Division of Examinations  
Mr. O'Connell, Assistant General Counsel  
Mr. Conkling, Assistant Director, Division of Bank Operations  
Mr. Goodman, Assistant Director, Division of Examinations  
Mr. Leavitt, Assistant Director, Division of Examinations  
Mrs. Semia, Technical Assistant, Office of the Secretary  
Mr. Sanders, Attorney, Legal Division  
Mr. Egertson, Supervisory Review Examiner, Division of Examinations  
Mr. McClintock, Supervisory Review Examiner, Division of Examinations

Request of Marine Midland International (Item No. 1). There had been distributed a memorandum dated October 30, 1964, from the Division of Examinations regarding the request of Marine Midland International Corporation, New York, New York, for consent to purchase the entire outstanding capital stock of Traders Credit Bank, Athens, Greece, at a cost of approximately \$1,200,000. Attached to the memorandum was a draft of letter to Marine Midland International that would reflect the Division's recommendation of approval.

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During discussion Governor Mills raised several questions, to which the staff responded, after which the letter, a copy of which is attached as Item No. 1, was approved unanimously.

Report on competitive factors (Decatur-Gadsden, Alabama).

There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The First National Bank in Gadsden, Gadsden, Alabama, into State National Bank of Alabama, Decatur, Alabama.

After a discussion during which there was agreement with a change in the text of the report suggested by Governor Robertson, the report was approved unanimously for transmittal to the Comptroller.

The conclusion of the report, as approved, read as follows:

The proposed merger of The First National Bank in Gadsden into State National Bank of Alabama, Decatur, would eliminate the small amount of competition which exists between the two banks, and entry of State National Bank into Etowah County would expose the remaining banks in Etowah County to the direct competitive capabilities of a substantially larger institution.

Messrs. Goodman, Egertson, and McClintock then withdrew from the meeting.

Trading in bank securities (Items 2 and 3). The 1964 amendments to the Securities Exchange Act of 1934 required public disclosure, through registration and periodic reports, of information regarding corporations whose securities were actively traded "over the counter." Administration of the disclosure requirements with respect to bank

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stocks was vested in the three Federal bank supervisory agencies. The new legislation in effect required banks whose shares were traded over the counter to register their stocks by the end of April 1965; however, registration was a prerequisite to listing a bank's shares for trading on a national securities exchange. The Board was given authority to exempt securities of State member banks from registration requirements where considered "necessary or appropriate in the public interest or for the protection of investors." The New York Stock Exchange had expressed the hope that, pending adoption of appropriate regulations and forms, temporary exemptions might be granted that would permit securities of banks to be traded on national securities exchanges without registration. The question as to the propriety of such exemptions was submitted to the Securities and Exchange Commission; in a letter of August 12, 1964, the staff of the Commission expressed disfavor. The Board's proposed Regulation F, Securities of Member State Banks, and a draft of registration statement were published in the Federal Register. All comments and suggestions to be considered were to be submitted by November 23, 1964, earlier deadlines having been advanced to that date. During the Board's discussions on August 13 and 20 and September 2, 1964, regarding implementation of the new legislation, reference was made to a request by The Chase Manhattan Bank, New York, New York (in a letter dated August 10, 1964, from Mr. Champion, Chairman of the Bank), for an exemption that would permit trading of the bank's

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stock on the New York Stock Exchange prior to the adoption by the Board of a form of registration statement.

There had now been distributed a memorandum dated November 2, 1964, from the Legal Division regarding a suggestion by the New York Stock Exchange, in a letter of October 23, 1964, that the Board grant a temporary exemption from section 12(a) of the Securities Exchange Act of 1934 to permit exchange trading in securities of "those banks which have fulfilled certain obligations which give them the characteristics of an investment security" prior to registration of the securities with the Board. The letter referred to delays in the commencement of exchange trading of Chase Manhattan's stock arising from the extensions of time for receiving comments on the Board's proposed Regulation F and registration form. Whether the Board should consider allowing such an exemption at this time, the memorandum continued, would appear to depend to some extent upon when Regulation F would be adopted: the date planned for adoption of the regulation was December 31, 1964. It was believed that inquiries received from the New York Stock Exchange and from Chase Manhattan prior to the Board's August announcement of its proposed Regulation F were based upon the assumption that considerable time would elapse before the Board implemented the 1964 Act with respect to securities of member State banks. Consequently, the Board's prompt publication of its proposed regulation was considered an implied answer to those inquiries. Only after the announcement of the extension of time



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for receiving comments had the inquiries been renewed, apparently in the belief that the extension meant that the Board was contemplating delaying the effective date of its regulation. On October 16, 1964, in reply to a letter of October 14 from counsel for Chase Manhattan, Mr. Hackley indicated his understanding that the Board remained hopeful that the regulation could become effective by December 31 and that the Board did not consider that it was prepared to examine the questions of exemptions at this time. The Legal Division recommended, for reasons stated, that the Board reply in a similar manner to the October 23 letter from the New York Stock Exchange. A draft of such a reply was attached to the memorandum.

At the Board's invitation, Mr. Sanders commented on the request of the Stock Exchange, expressing the Legal Division's belief that it was a controversial question whether or not granting the exemption would be in the public interest. It did not appear that refusal would harm Chase Manhattan or its shareholders. It was believed that the Board would be in the best position to consider granting any exemptions after having the benefit of the staff's work on the development of the regulation in its final form, including study of comments received in response to the invitation in the Federal Register. The staff continued to hope that the regulation might be adopted by December 31, and it expected to have available all the material necessary to that end.

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Governor Robertson expressed the view that the approach suggested by the Legal Division was the correct one; there would be grave difficulties in granting an exemption before the Board was fully informed and had received all of the comments expected from advisory groups. Moreover, he felt that no one would be injured if the Board declined to make an exemption at present. He noted that the request now before the Board came from the Exchange rather than from an individual bank.

Governor Mills commented that a request from the Exchange, which had reasons to wish to promote trading in bank stocks, was less persuasive with him than would be a request from an individual bank. He would be gratified if Regulation F could be adopted by December 31. However, he did not believe it would be desirable to close the door firmly to requests for exemptions prior to the adoption of the regulation, because as of the year-end there would be a flood of annual reports of banks containing comprehensive statements. If there should be requests to consider such statements as substantially in conformance with the Board's disclosure requirements, it would be well to have left open the possibility of granting exemptions.

Governor Shepardson remarked that, even if it should develop that Regulation F could not be adopted by December 31, the Board, having had an analysis of the comments received before then, would be in a better position to appraise the advisability of granting an exemption.

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The type of reply suggested by the Legal Division did not foreclose the possibility of an exemption and, as he understood it, no bank was pressing for an exemption at the moment.

Governor Mitchell said that, although the motives of the Exchange in making the request were not apparent to him, he did not believe that the Board should judge what they were. If the Exchange had had a good reason for requesting an exemption at the present time, he would be prepared to favor granting the request, but he did not see such a reason disclosed in the record.

There ensued a discussion of impressions drawn from conversations with representatives of the New York Stock Exchange and of The Chase Manhattan Bank bearing upon the probable reasons for requesting an exemption from registration requirements and the degree of importance of such an exemption to Chase Manhattan. As to the latter point, there seemed to be no indication that the matter was of great moment; however, it was the consensus that, as a matter of good relations with member banks, there should be a formal response to Mr. Champion's letter of August 10, 1964, even though it was understood that the Board's announcement of its proposed Regulation F had been tantamount to a response. The suggestion was made that the Federal Reserve Banks be sent copies of the reply to be made to the Stock Exchange for their guidance in the event they should receive requests for exemptions. However, the view was expressed that the Reserve Banks might regard the letter as



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signifying a more definite refusal to grant exemptions than was intended, and it was understood that such an indication should not be transmitted at the present time.

Certain changes that had been suggested in the draft were agreed upon, after which the letter to the Stock Exchange was approved unani- mously in the form attached as Item No. 2. It was understood that an appropriate letter would be sent to Mr. Champion, Chairman of The Chase Manhattan Bank, referring to his letter of August 10, 1964, and trans- mitting a copy of the letter to the Stock Exchange.

Secretary's Note: A letter was sent to Mr. Champion in the form attached as Item No. 3. A copy of the letter was furnished to President Hayes of the Federal Reserve Bank of New York for his informa- tion.

All of the members of the staff except Mr. Sherman withdrew from the meeting at this point and Mr. Kiley, Assistant Director, Division of Bank Operations, entered the room.

Employment of management consultant by Dallas Bank. Governor Mitchell stated that President Irons of the Federal Reserve Bank of Dallas had raised with the Board's Committee on Organization, Compensa- tion, and Building Plans the question of employment by the Dallas Bank of a management consultant firm for the purpose of reviewing the opera- tions of the Bank and making suggestions as to improving its efficiency. Proposals had been received from three firms, and Mr. Irons wished to

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take up with his directors promptly the matter of entering into a contract with one of the firms. Governor Mitchell stated that the Committee would appreciate guidance from the Board as to whether the employment by a Reserve Bank of a firm for the purpose indicated should be encouraged or discouraged by the Board and the extent to which the Committee should pass on to Mr. Irons suggestions developed by the Board's staff regarding the type of agreement that might be entered into. On the latter point, Governor Mitchell indicated that the staff had reviewed procedures followed by the Bureau of the Budget in entering into such contracts over a period of years. The proposal that President Irons would like to recommend to the directors of the Dallas Bank did not contain as precise specifications as to the nature of the work to be performed as might be desirable on the basis of the experience of the Bureau of the Budget.

Following a general discussion, the Board indicated that it was strongly in sympathy with any steps that might be taken by a Reserve Bank to improve operating efficiency through the employment of a management consultant firm such as was proposed by President Irons. It also indicated that Governor Mitchell should feel free to pass on to Mr. Irons for his consideration any suggestions as to the type or scope of agreement that might be helpful in assuring that the firm employed would give the Bank the maximum assistance.

The meeting then adjourned.

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Secretary's Note: Governor Shepardson today approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

Appointment

Willie L. Leftwich as Messenger, Division of Administrative Services, with basic annual salary at the rate of \$3,385, effective the date of entrance upon duty.

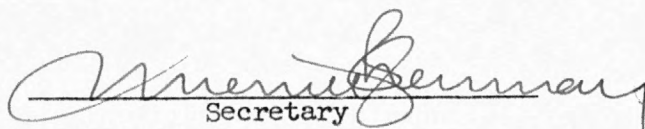
Salary increase

Bruce D. Shuter, Attorney, Legal Division, from \$6,050 to \$7,220 per annum, effective November 8, 1964.

Acceptance of resignations

Janet P. Flow, Records Clerk, Office of the Secretary, effective at the close of business November 13, 1964.

Emily Last, Programmer, Division of Research and Statistics, effective at the close of business November 6, 1964.

  
Secretary

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

3762

Item No. 1  
11/4/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

November 4, 1964.



Marine Midland International Corporation,  
120 Broadway,  
New York 5, New York.

Gentlemen:

In accordance with the request contained in your letter of October 27, 1964, and on the basis of the information furnished, the Board of Governors grants consent for Marine Midland International Corporation ("MMIC") to purchase and hold all of the outstanding shares of Traders Credit Bank, S.A., Athens, Greece ("TCB"), at a cost of approximately US\$1,200,000, provided such shares are acquired within one year from the date of this letter.

The Board also approves the purchase and holding of shares of TCB within the terms of the above consent in excess of 15 per cent of MMIC's capital and surplus.

The Board's consent to the proposed purchase and holding of shares of TCB by MMIC is granted subject to the following conditions:

- (1) That MMIC shall not hold any shares of stock in TCB if TCB at any time fails to restrict its activities to those permissible to a corporation in which a corporation organized under Section 25(a) of the Federal Reserve Act could, with the consent of the Board of Governors, purchase and hold stock or if TCB establishes any branch or agency or takes any action or undertakes any operation in Greece or elsewhere, in any manner, which at the time would not be permissible if TCB were a corporation organized under said Section 25(a);

Marine Midland International Corporation -2-

- (2) That, when required by the Board of Governors, MMIC will cause TCB to permit examiners selected or auditors approved by the Board of Governors to examine TCB and to furnish the Board of Governors with such reports as it may require from time to time;
- (3) That MMIC shall not carry on its books the shares of TCB at a net amount in excess of the book capital accounts of TCB, after giving effect to the proposed revaluation of bank premises and the elimination of all known losses; and
- (4) That any share acquisitions or dispositions by TCB be reported under Section 211.8(d) of Regulation K in the same manner as if TCB were a corporation organized under Section 25(a) of the Federal Reserve Act.

Subject to continuing observation and review, the Board suspends, until further notice the provisions of subparagraph (1) of the third paragraph of this letter so far as they relate to restrictions on loans granted by TCB in Greece in the currency of that country.

Upon the completion of the proposed acquisition, it is requested that the Board of Governors be furnished, through the Federal Reserve Bank of New York, with copies of the Articles of Association, Memorandum of Association, and by-laws of TCB.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

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Item No. 2  
11/4/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

November 4, 1964.

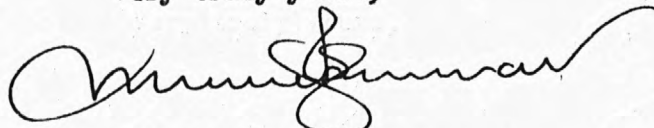
Mr. G. Keith Funston, President,  
New York Stock Exchange,  
Eleven Wall Street,  
New York, New York. 10005

Dear Mr. Funston:

This is in reply to your letter of October 23, 1964, in which you suggest that the Board of Governors might consider granting a temporary exemption from section 12(a) of the Securities Exchange Act of 1934 to permit trading of securities of member State banks on the New York Stock Exchange prior to registration of those securities on the Exchange and with the Board.

The Board considers that it would best be able to evaluate the merits of any possible exemptions from the 1934 Act after it has had the full benefit of all comments received from interested persons and an analysis thereof by its staff. It is contemplated that such analysis can be accomplished during December so that the Board could adopt its Regulation F ("Securities of Member State Banks") by December 31, 1964.

Very truly yours,



Merritt Sherman,  
Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

3765  
Item No. 3  
11/4/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

November 4, 1964.



Mr. George Champion,  
Chairman, Board of Directors,  
The Chase Manhattan Bank,  
Chase Manhattan Plaza,  
New York, New York. 10015

Dear Mr. Champion:

Reference is made to the subject of your August 10, 1964 letter to the Board of Governors, and to subsequent communications and conversations between representatives of your bank and of the Board, all relating to your request for the Board to grant an exemption from the provisions of section 12(a) of the Securities Exchange Act of 1934 to permit trading in the stock of your bank on the New York Stock Exchange prior to registration of the stock with the Exchange and with the Board.

There has recently been submitted to the Board by Mr. G. Keith Funston, President, New York Stock Exchange, a request similar to that submitted by you but relating to all member State banks. With the thought that its content would be of interest to you, there is enclosed a copy of the Board's reply to Mr. Funston.

Very truly yours,

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

Merritt Sherman,  
Secretary.

Enclosure