

Minutes for December 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
- Gov. Mills
- Gov. Robertson
- Gov. Balderston
- Gov. Shepardson
- Gov. Mitchell
- Gov. Daane

The image shows handwritten initials and signatures on horizontal lines next to the list of names. From top to bottom: a circled 'M' for Chm. Martin; a signature for Gov. Mills; a signature for Gov. Robertson; the initials 'RCB' for Gov. Balderston; a signature for Gov. Shepardson; a signature for Gov. Mitchell; and a signature for Gov. Daane.

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, December 9, 1964. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary  
Miss Carmichael, Assistant Secretary  
Mr. Molony, Assistant to the Board  
Mr. Fauver, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Solomon, Director, Division of Examinations  
Mr. Kakalec, Controller  
Mr. Shay, Assistant General Counsel  
Mr. Sammons, Adviser, Division of International Finance  
Mr. Kiley, Assistant Director, Division of Bank Operations  
Mr. Leavitt, Assistant Director, Division of Examinations  
Mr. Sprecher, Assistant Director, Division of Personnel Administration  
Miss Hart, Senior Attorney, Legal Division  
Mr. Egertson, Supervisory Review Examiner, Division of Examinations  
Mr. McClintock, Supervisory Review Examiner, Division of Examinations  
Mr. Poundstone, Review Examiner, Division of Examinations  
Mr. Ring, Technical Assistant, Division of Bank Operations  
Mr. Waller, Supervisory Accountant, Office of the Controller

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

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|   | <u>Item No.</u> |
|---|-----------------|
| Letter to International Banking Corporation, New York, New York, granting permission to purchase additional stock of The First National City Bank of New York (South Africa) Limited, Johannesburg, Republic of South Africa. | 1               |
| Letter to Morgan Guaranty Trust Company, New York, New York, furnishing information regarding the aggregate capital stock and aggregate assets of section 25 and 25(a) corporations.  | 2               |
| Letter to the Federal Reserve Bank of Dallas approving the appointment of Marvin D. Cline as Federal Reserve Agent's Representative at the El Paso Branch.  | 3               |

With respect to Item No. 2, Governor Mills suggested that the wording of the second paragraph of the letter to Morgan Guaranty Trust Company be clarified, and the letter sent reflects the changes that were made pursuant to that suggestion.

During discussion of this item it was the general consensus that the information requested should be furnished, and it was noted that there were plans for publishing in the Federal Reserve Bulletin statistics relating to section 25 and 25(a) corporations.

Messrs. Sammons, Sprecher, and Poundstone then withdrew from the meeting and Mr. Brill, Director, Division of Research and Statistics, entered the room.

Application of Summit Trust Company. There had been distributed a memorandum from the Division of Examinations dated December 4, 1964, and other pertinent papers relating to the

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application of The Summit Trust Company, Summit, New Jersey, to merge with The Elizabethport Banking Company, Elizabeth, New Jersey, under the charter of the former and title Summit and Elizabeth Trust Company. The Federal Reserve Bank of New York and the Board's Division of Examinations recommended approval.

Mr. Egertson reviewed the circumstances surrounding the application, basing his remarks on the material that had been distributed, following which members of the Board asked several questions, one of which related to the projected value of the stock of the resulting bank. According to the memorandum that had been distributed, the stock of each bank was closely held and inactive. On the basis of market values at the time of the most recent sale in 1963--\$102 per share for Summit Trust and \$76 per share for Elizabethport Banking Company--each shareholder of the latter bank would receive stock in the resulting bank with a total market value of about \$170 per share.

The members of the Board then expressed their views.

Governor Mills stated that he had been undecided regarding the application, but on the basis of the information presented he would favor approval. He was influenced by the fact that the application involved New Jersey communities with a dense population that were close to New York City and accessible to competing banks and the credit services that were available there. The situation, which was peculiar

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to that particular area and could not be found in other sections of the country, constituted a justification for approval that the Board had recognized in the past when it had approved mergers of banks serving growing communities that were near larger metropolitan areas. On the basis of that sort of reasoning, he felt there was justification for approving the merger.

On the other hand, Governor Mills indicated that the two banks were approximately 12 miles apart, which was a long distance for a densely populated area, and the proposal from the standpoint of convenience or logic did not match up with merger applications that would bring together two banks located in contiguous areas.

Governor Mills went on to say that he was concerned because the more stable bank had concentrated largely in real estate mortgage loans and was relatively inexperienced with the volatile credit type of transactions in which Elizabethport Banking Company engaged. This would mean that the resulting bank would lean heavily on the credit officers of Elizabethport Banking Company, whose record in the credit area had not been especially noteworthy. This factor would weigh in the direction of denying the application. In reaching his conclusion regarding the proposal, Governor Mills said that he had been influenced by the fact that the New Jersey State Commissioner of Banking and Insurance had been favorable to the merger. Also, with the exception of the report of the Justice Department, there had been no adverse

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competitive factor reports. On balance, he would favor approval of the application, but with no enthusiasm.

Governor Robertson said he was not happy about the proposed merger. Two strong banks were involved and there was a trend toward mergers in the State of New Jersey. However, in the light of the information before the Board he would approve the application on the grounds that the competition between the banks was very slight, there being no direct public transportation between them. He would disagree with the conclusion of the Reserve Bank and the Division of Examinations that the merger would have no effect on the smaller banks in the area, but he agreed that the merger would increase competition among the larger institutions. Weighing most heavily in favor of approval was the fact that the resulting bank was expected to provide additional and broader banking services to the people in the two service areas. As he saw it, the two banks complemented rather than combatted each other.

Governor Shepardson said that he would follow the recommendation of the Division of Examinations for approval.

Governor Mitchell stated that he also would approve the application on the grounds that the public interest would not be adversely affected. He did not think the argument that the resulting bank would provide better services would hold up, and he doubted that there was a need for trust service in the area now being served by

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Elizabethport Banking Company. In his judgment, a bank tended to be responsive to the needs of the area it serviced. To provide trust service to an area that did not want it was, he thought, a sham for approval. However, when the public interest was not adversely affected, he thought that the Board should permit banks to do what they considered was best for the communities they served.

Governor Daane said that he would approve the application for the reasons presented by the Division of Examinations. He had no reason to believe that the prospect of broader and better service in the area was a sham.

Governor Balderston indicated that his approach on the application was similar to that of Governor Robertson. He felt that Elizabeth with its commercial activity could use a larger bank lending unit. Since the two banks were complementary to each other, the resulting bank could be expected to render a greater public service. Also, he liked the idea that the two largest banks in the area would get more aggressive competition from the resulting institution.

Chairman Martin stated that he also favored approval of the application on the grounds that the merger would be a help to the community.

The application of The Summit Trust Company was thereupon approved unanimously. It was understood that an order and statement

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reflecting this decision would be drafted by the Legal Division for the Board's consideration.

Messrs. Egertson and McClintock then withdrew from the meeting.

Question under section 32 of service by Robert W. Winthrop (Item No. 4). At the Board meeting on April 7, 1964, consideration was given to the application of section 32 of the Banking Act of 1933 to the service of Robert W. Winthrop as a director of First National City Bank and as a partner in the firm of Wood, Struthers & Winthrop, both of New York, New York. The Board concluded that section 32 would apply and that Mr. Winthrop would therefore be prohibited from serving both as a director of the bank and as a partner in the firm. A letter dated April 8, 1964, advised the New York Reserve Bank to that effect, on the basis of which Mr. Winthrop resigned from First National City Bank's board of directors.

In a letter of September 24, 1964, First National City Bank asked the Board to rule that Mr. Winthrop might rejoin the bank's board of directors if the partnership firm of Wood, Struthers & Winthrop were to be incorporated. Subsequently, on November 5, 1964, representatives of the bank came to Washington and conferred with Governor Robertson and members of the Board's staff with respect to the new proposal.

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Details of the proposal were covered in a memorandum from the Legal Division dated December 4, 1964, that had been distributed. Attached to the memorandum was a draft of letter to First National City Bank that summarized background information and presented an analysis of the proposal. The letter reflected the conclusion of the Legal Division that the alteration of the structure of the firm of Wood, Struthers & Winthrop along the lines described in the bank's letter of September 24 would not warrant a change in the Board's earlier position that the two entities must be regarded as a single enterprise for purposes of section 32; that the enterprise was, and would be, "primarily engaged" in activities of the kinds described in section 32; and that, as a result, Mr. Winthrop would continue to be forbidden to serve as a director of the bank so long as he served as an employee, officer, or director of either the brokerage or the underwriting arm of the enterprise.

During discussion Chairman Martin commented that, if the Board were to make an exception in this particular case, he believed that no problem would be created so far as the public interest was concerned. He thought, however, that it was preferable for the Board to reply along the lines suggested by the Legal Division.

Governor Balderston noted that the proposed reply was to the effect that the Board considered that the part of the enterprise

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that wore corporate clothes was not sufficiently different from the other part to justify changing the Board's earlier decision.

Governor Robertson expressed the view that it was unfortunate that the Board had had to come to this conclusion, but he thought that there was no other choice.

At the conclusion of the discussion the letter was approved unanimously. A copy is attached as Item No. 4.

Messrs. Shay and Leavitt then withdrew from the meeting, as did Miss Hart.

Reserve Bank budgets for first half of 1965 (Item No. 5).

There had been distributed a memorandum from the Division of Bank Operations dated December 3, 1964, summarizing the proposed budgets of the Federal Reserve Banks for the first half of 1965. The Reserve Banks had budgeted total expenses of \$114.8 million for the first six months of 1965, which was \$4.2 million (3.8 per cent) more than actual expenses during the last half of 1964, estimated and projected to the extent necessary. Of the amount budgeted, \$93.3 million represented operating expenses--an increase of about \$2 million (2.1 per cent)--and \$21.5 million represented noncontrollable expenses--an increase of \$2.3 million (11.8 per cent) over estimated expenses for the last half of 1964. Approximately two-fifths of the increase in operating expenses resulted from paying a larger share of social security and unemployment taxes in the first part of the year. A significant

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portion of the budgeted increase was attributable to costs associated with handling and shipping coin; these costs were based on the high level of Mint production, which was expected to cause a heavier flow of coin in 1965.

In commenting on the proposed budgets, Mr. Kiley noted that they had been submitted in accordance with the revised budget procedure and there appeared to be no particular problems. Operating expenses were expected to increase at all Banks except Boston, Cleveland, and Kansas City. The Philadelphia and Dallas Reserve Banks were anticipating an increase of about 6 per cent each in operating expenses, compared with 4 per cent and less at the other Banks. The larger increase at Philadelphia resulted in part from nonrecurring expenses involving the remodeling of its Cash Department and the purchase of power equipment for the handling of coin. The increase at Dallas resulted in part from plans for a management consultant firm to conduct a study regarding the objectives, organization, procedures, and relationships of the Bank.

Governor Mills stated that because he had not been reconciled to the current budgetary procedures he would regrettably abstain from participating in the decision on Reserve Bank budgets. Under the present procedure he felt that the Board did not have the detailed information it needed to carry out its statutory responsibilities with respect to Reserve Bank budgets. The Board was now being asked to pass on global rather than individual amounts.

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Governor Mitchell commented that the Reserve Bank budgets for the first half of 1965 represented a full-blown and mature example of the kind of budgeting system that was contemplated under the revised procedures that had been developed. The present system seemed to him to be effective and adequate, but if other members of the Board felt differently, steps should be taken to change the procedures.

After further discussion, the budgets of the respective Reserve Banks for the first six months of 1965 were accepted as submitted, Governor Mills abstaining. A copy of the letter sent to the Federal Reserve Bank of Boston pursuant to this action is attached as Item No. 5. The letters sent to the other Reserve Banks were similar in form.

Messrs. Molony, Hackley, Solomon, Kiley, and Ring then withdrew from the meeting.

Board budget for 1965 (Items 6 and 7). There had been distributed to the Board with a covering memorandum from the Controller dated December 3, 1964, a proposed Board budget for the calendar year 1965 in the total amount of \$8,846,994. As pointed out, the proposed budget was about \$398,500 (5 per cent) higher than the 1964 budget and about \$73,900 (1 per cent) more than estimated expenses for 1964. The 1965 budget reflected an increase of \$474,000 in personal services (including Retirement System contributions) and \$301,000 in

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nonpersonal services. The increase in personal services included the general pay increase for Federal Government employees, effective in July 1964; additional cost of new positions and positions vacant part or all of 1964; and cost of 1964 and 1965 salary adjustments. The increase in nonpersonal services included \$214,000 for architects' fees related to the planning of an annex building across "C" Street. The increases were partially offset by estimated decreases (\$701,000) in expenditures for furniture and equipment, rentals, and surveys.

At the request of the Board, Mr. Kakalec commented on the proposed budget.

Governor Shepardson noted that an effort had been made in the 1965 budget to reduce the number of vacant positions that had been carried for various Divisions. He observed that if a need developed during the year for filling any position and suitable personnel were available, the necessary steps could be taken to establish the position.

Following discussion, which included comments relating to the present budget procedure and format, the budget for 1965 was approved unanimously.

Secretary's Note: Subsequently, on December 10, 1964, the Board approved an increase in the 1965 budget in an amount equivalent to the total of increases approved in salaries of officers of the Board. This increased the total budget to \$8,869,494. Tables summarizing the approved budget, as adjusted, are attached to these minutes as Items 6 and 7.

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Messrs. Brill, Kakalec, and Waller then withdrew from the meeting.

Director appointments. It was agreed to ascertain through the Chairman of the Federal Reserve Bank of Dallas whether Gordon W. Foster, President of Food Mart, Inc., El Paso, Texas, would accept appointment, if tendered, as director of the El Paso Branch for the three-year term beginning January 1, 1965, with the understanding that if it were found that he would accept, the appointment would be made, with public announcement near the end of 1964.

Secretary's Note: It having been ascertained that Mr. Foster would accept, an appointment telegram was sent to him on December 10, 1964.

Smith D. Broadbent, Jr., Owner, Broadbent Hybrid Corn Company, Cadiz, Kentucky, who was recently appointed a Class C director of the Federal Reserve Bank of St. Louis, was appointed Deputy Chairman of the St. Louis Bank for the year 1965, with the understanding that public announcement would be made near the end of 1964.

Secretary's Note: A telegram was sent to Mr. Broadbent on December 9, 1964, informing him of his appointment as Deputy Chairman.

In view of the expected resignation as of December 31, 1964, of David C. Bevan, a Class C director of the Federal Reserve Bank of Philadelphia whose reappointment as Deputy Chairman had been approved at the meeting on October 28, 1964, it was agreed to take the following

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actions if and when Mr. Bevan's resignation was received: (1) to appoint D. Robert Yarnall, Jr., President, Yarnall-Waring Company, Philadelphia, Pennsylvania, as a Class C director of the Philadelphia Reserve Bank, beginning January 1, 1965, for the unexpired portion of Mr. Bevan's three-year term ending December 31, 1965; and (2) to appoint Willis J. Winn, who was currently serving as a Class C director of the Philadelphia Reserve Bank, as Deputy Chairman of the Bank for the year 1965. It was understood that public announcement of these appointments, if made, would be included in the press release to be issued later this month.

Secretary's Note: In a letter dated December 8, 1964, Mr. Bevan submitted his resignation as a Class C director of the Federal Reserve Bank of Philadelphia, effective December 31, 1964. Accordingly, appointment telegrams were sent to Messrs. Yarnall and Winn on December 10, 1964.

Directors' Day. It was agreed that the annual program for newly-appointed Federal Reserve Bank and branch directors would be held on Thursday, March 25, 1965, preceded by a dinner on Wednesday, March 24.

The meeting then adjourned.

  
Secretary

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

Item No. 1  
12/9/64



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

CABLE ADDRESS: "FEDRESERVE"

December 9, 1964.

International Banking Corporation,  
399 Park Avenue,  
New York 22, New York.

Gentlemen:

In accordance with the request contained in your letter of November 25, 1964, transmitted through the Federal Reserve Bank of New York, and on the basis of information furnished, the Board of Governors grants consent for your Corporation to purchase and hold additional capital stock of The First National City Bank of New York (South Africa) Limited in the amount of South African Rands 400,000 (approximately US\$560,000 equivalent).

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2  
12/9/64



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 14, 1964.

Mr. George H. Chittenden, Vice President,  
Morgan Guaranty Trust Company of New York,  
23 Wall Street,  
New York 8, New York.

Dear Mr. Chittenden:

Reference is made to your telephone conversation with Mr. Goodman of the Board's Division of Examinations on Friday, December 4, 1964, in which you advised that you were preparing a paper for presentation before the American Finance Association in Chicago on December 28 regarding the changing role of United States banks in the international scene.

It is understood that you are interested in having a rough measure as to the growth of Section 25 (Agreement) and Section 25(a) (Edge Act) Corporations during recent years. On the basis of the review of the call reports of the Corporations as of December 31, 1956 (just after the adoption of a revised Regulation K, effective January 15, 1957) and as of June 30, 1964, the aggregate capital stock and aggregate assets of such Corporations were as follows:

| <u>Date and Type<br/>of Corporation</u> | <u>Number of<br/>Corporations</u> | <u>Aggregate<br/>Capital Stock</u> | <u>Aggregate Assets</u> |
|---|-----------------------------------|------------------------------------|-------------------------|
| December 31, 1956:                      |                                   |                                    |                         |
| Sec. 25(a)<br>Corporations              | 3)                                |                                    |                         |
| Sec. 25<br>Corporations                 | 4)                                | \$ 31,281,000                      | \$400,982,000           |
| June 30, 1964:                          |                                   |                                    |                         |
| Sec. 25(a)<br>Corporations              | 32*)                              |                                    |                         |
| Sec. 25<br>Corporations                 | 5 )                               | 136,750,000                        | 720,676,000             |

\* Including 1 that has not commenced business.

## BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. George H. Chittenden

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You will understand, of course, that these are not edited figures and the treatment of valuation reserves and allowances is not uniform as some Corporations show assets gross while others show net.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3  
12/9/64



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 9, 1964

Mr. Robert O. Anderson,  
Chairman of the Board and  
Federal Reserve Agent,  
Federal Reserve Bank of Dallas,  
Dallas, Texas. 75222.

Dear Mr. Anderson:

In accordance with the request contained in your letter of November 20, 1964, the Board of Governors approves the appointment of Mr. Marvin D. Cline as Federal Reserve Agent's Representative at the El Paso Branch to succeed Mr. Thomas H. Robertson.

This approval is given with the understanding that Mr. Cline will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of his duties, except that, during the absence or disability of the Federal Reserve Agent or a vacancy in that office, his responsibility will be to the Assistant Federal Reserve Agent and the Board of Governors.

When not engaged in the performance of his duties as Federal Reserve Agent's Representative, Mr. Cline may, with the approval of the Federal Reserve Agent and the Vice President in charge of the El Paso Branch, perform such work for the Branch as will not be inconsistent with his duties as Federal Reserve Agent's Representative.

It will be appreciated if Mr. Cline is fully informed of the importance of his responsibilities as a member of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

It is noted from your letter that, with the approval of Mr. Cline's appointment by the Board of Governors, he will execute the usual Oath of Office which will be forwarded to the Board together with advice of the effective date of his appointment.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 4  
12/9/64



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 9, 1964.

Mr. George S. Moore, President,  
First National City Bank,  
55 Wall Street,  
New York, New York.

Dear Mr. Moore:

This refers to your letter to the Board of Governors of September 24, 1964, asking the Board to rule that Mr. Robert Winthrop may rejoin the board of directors of First National City Bank, New York, New York, if the partnership firm of Wood, Struthers & Winthrop ("Winthrop") were to be incorporated. On November 5, 1964, with Mr. Charles Parlin of the law firm of Shearman & Sterling, you discussed the matter with Governor Robertson in a meeting at which several members of the Board's staff were also present. Thereafter, Mr. Parlin sent the Board a letter of November 13, 1964, and a legal memorandum in support of the request.

Mr. Winthrop resigned from your board last May, in compliance with a letter of April 8, 1964, in which the Board concluded that his interlocking service as a director of your bank and a partner in Winthrop was forbidden by section 32 of the Banking Act of 1933. Section 32 provides that "No officer, director, or employee of any corporation . . . [and] no partner . . . of any partnership . . . primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities, shall serve the same time as . . . director . . . of any member bank . . .", with certain exceptions not applicable here.

To summarize the history of the matter briefly, Mr. Winthrop had been senior partner in Robert Winthrop & Co., a firm which had always been engaged to some extent--but which the Board had held, except for a brief period, not to be "primarily engaged"--in activities of the kinds described in section 32 ("section 32 business"). That firm merged on March 29, 1963, with another, Wood, Struthers & Co.,

Mr. Moore

which the Board had regarded as so engaged. The section 32 business of the combined firm was then placed in an affiliated corporation ("Struthers"), with which Mr. Winthrop was not directly involved. It is understood that the new firm, itself (Wood, Struthers & Winthrop), continued in the brokerage business, with Mr. Winthrop as a principal partner.

The Board concluded that, for purposes of section 32, the partnership and corporation should be regarded as a single enterprise, and that this combined enterprise was "primarily engaged". The necessary corollary was that section 32 forbade Mr. Winthrop's interlocking service with a member bank. (1964 Federal Reserve Bulletin 563)

Under the proposal submitted in your letter of September 24, 1964, it appears that Mr. Winthrop would be an officer, shareholder, director, and employee of a new (brokerage) corporation, successor to Winthrop, as would the remaining former partners. However, while his former partners would continue as shareholders, officers, and directors of Struthers, the underwriting corporation, Mr. Winthrop would hold none of its stock, and would not serve it as officer, director, or employee. The two corporations would be regarded as affiliates under Rule 321 of the New York Stock Exchange, so that the stockholders in the one would be required to own proportionate interests in the other. However, you indicate that the Exchange would waive the requirement as to Mr. Winthrop, having previously waived the corresponding requirement as to him in respect to his owning stock in Struthers as a partner in Winthrop.

Four arguments are made in support of the proposal. The first is that since Mr. Winthrop has been an able and conscientious director, and controls a sizable block of stock in the bank as member of a family descended from one of its founders, the bank wishes to benefit from his services. The second is that, in his case, there is little likelihood that any of the evils at which the statute was directed would occur because the bank's rule forbids purchases from any firm with which he may be connected, while Mr. Winthrop himself would have little contact, in the course of his duties, with individual bank customers. As the Board has frequently had occasion to point out, however, it has no authority to grant individual exceptions to the prohibition of section 32, but can make exceptions only by general regulation in limited classes of cases. The statute is a prophylactic one, designed to prevent situations from arising in which the possibility of conflicts might occur (Board of Governors v. Agnew, 329 U.S. 441, 449 (1946)), and no practicable way has been suggested for framing an amendment which would exempt individuals such as Mr. Winthrop and yet prevent interlocking service, in other, less deserving cases.

Mr. Moore

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The third argument is that while Winthrop and Struthers might properly be regarded as one entity for purposes of section 32, applicable principles of law would not permit "piercing the corporate veil" if Winthrop, itself, were incorporated, as you now propose. This argument is supported by the legal memorandum enclosed with Mr. Parlin's letter of November 13, 1964. The memorandum contends that, although it may be proper to attribute his partners' interests in Struthers to Mr. Winthrop on the basis that under some circumstances a partner may be responsible for his partners' debts, such attribution would be impossible if there were two separate corporations. The memorandum cites cases holding that under New York law, one corporation may not be charged with the debts of an affiliated corporation.

This argument does not seem persuasive in the present case. The authorities are clear that whether or not a corporate veil will be pierced in a particular instance depends upon the context. It may well be that courts are reluctant to attribute debts of one corporation to another, since one of the principal reasons for use of the corporate form of doing business is to achieve limited liability.

Quite different considerations, however, are involved where incorporation is adopted because of the prohibition of a statute. As a leading authority has put it, "Where the corporate form of organization is adopted or a corporate entity is asserted in an endeavor to evade a statute or to modify its intent, courts will disregard the corporation or its entity and look at the substance and reality of the matter. . . ." Fletcher, *Cyclopedia on Corporations*, volume 1, page 240. See, e.g. *United States v. Reading Co.*, 253 U.S. 26, 60 (1919). The conclusions expressed in the Board's letter of April 8, 1964, were based upon the relationship between Winthrop and Struthers, viewed as a whole, and the admitted fact that separate incorporation of Struthers was undertaken in the hope of escaping the impact of section 32 on Mr. Winthrop's interlocking service with your bank. The Board is cognizant of Mr. Winthrop's endeavor not to be involved personally in the conduct of corporation's affairs, but the prohibition of the statute applies to "any partner" (emphasis added). The statute makes no reference to a partner's personal involvement, or lack thereof, in the activities described in section 32. The Board has consistently held, for example, that limited partners in securities firms are subject to the prohibition of the section. (1962 Federal Reserve Bulletin 975) Thus, the finding that when the situation is viewed as a whole, Winthrop and Struthers must be regarded as a single entity, necessarily required the conclusion that Mr. Winthrop was forbidden to serve the bank, despite the precautions he had taken to avoid any personal connection with section 32 business.

Mr. Moore

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The final argument made in your letter is that, even conceding the underwriting and brokerage arms to constitute a single entity for purposes of section 32, that entity does not do a sufficient volume of underwriting to be regarded as "primarily engaged" in activities of the kinds described in that section. You point out that the expectation mentioned in the Board's interpretation that total underwriting would rise above 7.9 per cent of gross income of the enterprise as a whole has not proven to be correct, and that the corresponding figure for the first nine months of 1964 was 7.2 per cent. However, the gross volume of underwriting during the nine months was \$86 million, and the combined figure falls well within a range in which the Board has held the organizations involved to be "primarily engaged". In addition, while it has been possible to resolve most questions as to whether firms are "primarily engaged" in terms of figures for underwriting, which are more easily obtained, it is to be noted that dealing as a principal has also been held uniformly by the Board to be an activity described in the section. Were figures to be developed on the amount of dealing done by Winthrop and Struthers, it may be that they would add to the relative importance of the section 32 activities of the enterprise, although whether this would be true or not is not determinative of the case.

You also remark that Struthers has not been a manager of underwriting syndicates, and has taken only a relatively minor fraction of issues, in order to be assured of a supply of shares for its customers. The statute is not drawn only in terms of "underwriting", but covers other activities as well, and does not make allowance for the relative importance of a firm in respect to particular underwritings, or for subjective intent.

Accordingly, after careful consideration, the Board does not find that alteration in the structure of Winthrop and Struthers along the lines described in your letter of September 24, 1964, would require a change in its conclusions that the two entities must be regarded as a single enterprise for purposes of section 32; that the enterprise is, and would be, "primarily engaged" in activities of the kinds described in section 32; and that, as a result, Mr. Winthrop would continue to be forbidden to serve as a director of your bank so long as he serves as an employee, officer, or director of either the brokerage or the underwriting arm of the enterprise.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 5  
12/9/64



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 9, 1964.

Mr. George H. Ellis, President,  
Federal Reserve Bank of Boston,  
Boston, Massachusetts. 02106.

Dear Mr. Ellis:

The Board of Governors has reviewed and accepts  
the budget of the Federal Reserve Bank of Boston for the  
period January 1 - June 30, 1965, as submitted with  
Mr. Latham's letter of November 10, 1964.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Item No. 6  
12/9/641965 Budget  
Summary by Divisions

Schedule A

| Division   | 1964               |                         | 1965<br>Budget     | Over (Under)<br>1964 Expenses |
|--|--------------------|-------------------------|--------------------|-------------------------------|
|  | Budget             | Expenses<br>(Estimated) |                    |                               |
| Offices of Members of the Board                  | \$ 430,761         | \$ 477,192              | \$ 508,392         | \$ 31,200                     |
| Office of the Secretary                          | 351,773            | 363,527                 | 385,319            | 21,792                        |
| Legal Division                                   | 297,160            | 272,737                 | 308,018            | 35,281                        |
| Division of Research and Statistics              |                    |                         |                    |                               |
| Regular  | 1,938,118          | 2,156,108               | 2,025,676          | (130,432)                     |
| Special:   |                    |                         |                    |                               |
| Academic Consultants                             | 26,225             | 11,630                  | 12,410             | 780                           |
| Division of International Finance                | 561,561            | 557,464                 | 601,485            | 44,021                        |
| Division of Examinations                         | 1,013,902          | 888,405                 | 927,210            | 38,805                        |
| Division of Bank Operations                      | 309,675            | 303,247                 | 290,094            | (13,153)                      |
| Division of Personnel Administration             | 209,850            | 209,829                 | 219,486            | 9,657                         |
| Division of Administrative Services              |                    |                         |                    |                               |
| Regular  | 1,587,509          | 1,573,028               | 1,622,526          | 49,498                        |
| Special:   |                    |                         |                    |                               |
| Annex Building                                   | 80,500             | 51,939                  | 257,680            | 205,741                       |
| Alterations to Present Building                  | -                  | -                       | 8,625              | 8,625                         |
| Repairs - Retaining Walls, etc.                  | 15,000             | 15,141                  | 17,544             | 2,403                         |
| Replacement - Venetian Blinds                    | -                  | -                       | 11,000             | 11,000                        |
| Furniture Replacement Program                    | 4,000              | 4,000                   | 13,500             | 9,500                         |
| Printing 2nd System Booklet                      | 15,000             | -                       | 20,000             | 20,000                        |
| Supplements - Banking and<br>Monetary Statistics | 10,774             | (2,843)                 | 15,498             | 18,341                        |
| Fallout Shelter Facilities                       | 3,500              | 4,820                   | -                  | (4,820)                       |
| Office of the Controller                         | 111,457            | 113,335                 | 111,551            | (1,784)                       |
| Office of Defense Planning                       | 64,199             | 59,577                  | 59,704             | 127                           |
| Division of Data Processing                      |                    |                         |                    |                               |
| Regular  | 597,684            | 517,087                 | 551,816            | 34,729                        |
| Special:   |                    |                         |                    |                               |
| EDP Equipment                                    | -                  | 422,589                 | -                  | (422,589)                     |
| Charting Machine and<br>Projection Equipment     | -                  | -                       | 62,500             | 62,500                        |
| Employee Retirement and Insurance<br>Benefits    | 819,829            | 774,310                 | 839,460            | 65,150                        |
| <b>Total</b>                                     | <b>\$8,448,477</b> | <b>\$8,773,122</b>      | <b>\$8,869,494</b> | <b>\$ 96,372</b>              |

December 16, 1964

Item No. 7  
12/9/641965 Budget  
Summary by Account ClassificationsSchedule B  
Page 1

| Classification of Expenses                         | Positions Provided |                | A m o u n t |                         |                |                                  |
|--|--------------------|----------------|-------------|-------------------------|----------------|----------------------------------|
|  | 1964<br>Budget     | 1965<br>Budget | 1964        |                         | 1965<br>Budget | Over (Under)<br>1964<br>Expenses |
|  |                    |                | Budget      | Expenses<br>(Estimated) |                |                                  |
| <b>PERSONAL SERVICES</b>                           |                    |                |             |                         |                |                                  |
| Salaries:  |                    |                |             |                         |                |                                  |
| Offices of Members of the Board                    | 31                 | 31             | \$ 402,226  | \$ 439,371              | \$ 472,492     | \$ 33,121                        |
| Office of the Secretary                            | 49                 | 50             | 346,748     | 359,789                 | 381,134        | 21,345                           |
| Legal Division                                     | 31                 | 31             | 284,120     | 259,427                 | 290,798        | 31,371                           |
| <sup>1/</sup> Division of Research and Statistics  | 162                | 172            | 1,402,868   | 1,437,468               | 1,558,331      | 120,863                          |
| Division of International Finance                  | 51                 | 54             | 523,433     | 519,699                 | 545,368        | 25,669                           |
| <sup>1/</sup> Division of Examinations             | 80                 | 74             | 760,009     | 664,026                 | 702,851        | 38,825                           |
| <sup>1/</sup> Division of Bank Operations          | 29                 | 29             | 302,630     | 293,852                 | 276,969        | (16,883)                         |
| <sup>2/</sup> Division of Personnel Administration | 30                 | 30             | 174,820     | 176,394                 | 186,754        | 10,360                           |
| <sup>3/</sup> Division of Administrative Services  | 145                | 145            | 674,932     | 672,637                 | 706,064        | 33,427                           |
| Office of the Controller                           | 12                 | 12             | 108,372     | 105,860                 | 104,382        | (1,478)                          |
| Office of Defense Planning                         | 3                  | 3              | 48,861      | 49,562                  | 50,504         | 942                              |
| <sup>1/</sup> Division of Data Processing          | 53                 | 60             | 329,902     | 328,059                 | 444,569        | 116,510                          |
| Total - Positions and Salaries                     | 676                | 691            | \$5,358,921 | \$5,306,144             | \$5,720,216    | \$414,072                        |
| Fees   |                    |                | \$ 62,437   | \$ 49,407               | \$ 67,030      | \$ 17,623                        |
| Retirement Contributions                           |                    |                | 771,169     | 726,654                 | 789,625        | 62,971                           |
| Employee Insurance                                 |                    |                | 47,738      | 46,866                  | 49,045         | 2,179                            |
| Total Personal Services                            |                    |                | \$6,240,265 | \$6,129,071             | \$6,625,916    | \$496,845                        |

- <sup>1/</sup> Adjusted for 1964 organizational changes.  
<sup>2/</sup> Includes 10 stenographic recruit positions.  
<sup>3/</sup> Excludes Cafeteria salaries.

December 16, 1964

| Classification of Expenses                        | 1964        |                         | 1965<br>Budget | Over (Under)<br>1964 Expenses |
|---|-------------|-------------------------|----------------|-------------------------------|
|   | Budget      | Expenses<br>(Estimated) |                |                               |
| <b>NONPERSONAL SERVICES</b>                       |             |                         |                |                               |
| Traveling Expenses                                | \$ 330,100  | \$ 309,975              | \$ 322,409     | \$ 12,434                     |
| Postage and Expressage                            | 103,382     | 108,508                 | 107,943        | (565)                         |
| Telephone and Telegraph                           | 105,480     | 102,144                 | 101,829        | (315)                         |
| Printing and Binding                              | 397,143     | 342,950                 | 395,074        | 52,124                        |
| Stationery and Supplies                           | 74,490      | 74,544                  | 72,181         | (2,363)                       |
| Furniture and Equipment                           | 40,254      | 478,638                 | 126,137        | (352,501)                     |
| Rentals   | 330,988     | 205,059                 | 144,130        | (60,929)                      |
| Books and Subscriptions                           | 24,900      | 23,724                  | 25,150         | 1,426                         |
| Heat, Light and Power                             | 55,000      | 56,145                  | 56,500         | 355                           |
| Repairs and Alterations (Building and Grounds)    | 28,015      | 26,342                  | 52,029         | 25,687                        |
| Repairs and Maintenance (Furniture and Equipment) | 15,687      | 22,027                  | 27,372         | 5,345                         |
| Insurance   | 4,357       | 3,870                   | 1,839          | (2,031)                       |
| Contractual Professional Services                 | 567,685     | 753,300                 | 675,086        | (78,214)                      |
| Consumer Finances Surveys                         | 387,000     | 548,300                 | 270,000        | (278,300)                     |
| Consumer Credit Surveys                           | 30,000      | 45,200                  | 50,000         | 4,800                         |
| Other Surveys                                     | 28,000      | 61,785                  | 47,000         | (14,785)                      |
| Architectural Services                            | 80,500      | 51,750                  | 265,305        | 213,555                       |
| Security Clearance Investigations                 | 19,250      | 13,110                  | 13,260         | 150                           |
| Review of Examinations Procedures                 | 12,000      | 15,800                  | 13,000         | (2,800)                       |
| Legal, Consultant and Other Services              | 6,385       | 12,024                  | 11,246         | (778)                         |
| Auditing Books of Board                           | 3,000       | 3,000                   | 2,500          | (500)                         |
| Translating, Transcripts and Reporting Service    | 1,550       | 2,331                   | 2,775          | 444                           |
| All Other   | 130,731     | 136,825                 | 135,899        | (926)                         |
| Cafeteria (net)                                   | 54,673      | 45,398                  | 48,262         | 2,864                         |
| Special Statistical Services                      | 28,900      | 43,590                  | 39,600         | (3,990)                       |
| CEMLA Membership Fee                              | 18,000      | 18,000                  | 18,000         | -                             |
| Official Dinners, Receptions, etc.                | 6,150       | 4,261                   | 5,450          | 1,189                         |
| Tuition and Registration                          | 10,493      | 10,509                  | 9,392          | (1,117)                       |
| Meals for Official Guests                         | 3,900       | 3,840                   | 3,800          | (40)                          |
| News Ticker Service                               | 2,960       | 3,328                   | 3,690          | 362                           |
| Miscellaneous                                     | 5,655       | 7,899                   | 7,705          | (194)                         |
| Total Nonpersonal Services                        | \$2,208,212 | \$2,644,051             | \$2,243,578    | \$ (400,473)                  |
| Total Personal Services                           | 6,240,265   | 6,129,071               | 6,625,916      | 496,845                       |
| Grand Total                                       | \$8,448,477 | \$8,773,122             | \$8,869,494    | \$ 96,372                     |