

Minutes for December 30, 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

W

Gov. Mills

Gov. Robertson

R

Gov. Balderston

CCB

Gov. Shepardson

SS

Gov. Mitchell

M

Gov. Daane

AD

Minutes of the Board of Governors of the Federal Reserve

System on Wednesday, December 30, 1964. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Robertson
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. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research
and Statistics
Mr. Koch, Associate Director, Division of
Research and Statistics
Mr. Sammons, Adviser, Division of International
Finance
Mr. Spencer, General Assistant, Office of the
Secretary
Mr. Dahl, Chief, Special Studies and Operations
Section, Division of International Finance
Mr. Baker, Economist, Division of International
Finance
Mr. Hayes, Economist, Division of International
Finance
Mr. Furth, Consultant

Review of foreign financial developments. Mr. Furth discussed the effect of the British balance of payments situation on the international payments system. Mr. Baker then summarized foreign exchange market developments; Mr. Hayes commented on financial developments in the United Kingdom; and Mr. Dahl discussed certain balance of payments data.

12/30/64

-2-

Following brief discussion related to the foregoing presentation, all members of the staff except Messrs. Sherman, Bakke, Young, Noyes, Molony, Fauver, Hackley, Furth, and Spencer withdrew from the meeting and the following entered the room:

Mr. Farrell, Director, Division of Bank Operations
 Mr. Daniels, Assistant Director, Division of Bank Operations
 Mr. Goodman, Assistant Director, Division of Examinations
 Mr. Leavitt, Assistant Director, Division of Examinations
 Miss Hart, Senior Attorney, Legal Division
 Mr. Forrestal, Attorney, Legal Division
 Mr. Egertson, Supervisory Review Examiner, Division of Examinations
 Mr. Poundstone, Review Examiner, Division of Examinations

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

	<u>Item No.</u>
Letter to Bankers Trust Company, New York, New York, granting consent to combine the activities of its wholly-owned subsidiaries, Bankers International Financing Company, Inc., and Bankers International Corporation, in the manner requested.	1
Letter to the Federal Reserve Bank of Philadelphia with respect to the interlocking service of Mr. Charles T. Weiland as a director of Farmers and Mechanics National Bank of Phoenixville, Pennsylvania, and vice president of Greeley and Company, Inc., Philadelphia.	2

Chemical Overseas Finance Corporation (Item No. 3). There had been distributed a memorandum from the Division of Examinations dated December 22, 1964, dealing with a letter dated October 20, 1964, from Chemical International Finance, Ltd., New York, New York (a corporation

12/30/64

-3-

organized under and operating pursuant to section 25(a) of the Federal Reserve Act), requesting permission for its wholly-owned subsidiary, Chemical Overseas Finance Corporation, Hamilton, Bermuda, (1) to amend its charter to permit the acceptance of time and demand deposits, and (2) to be treated as a separate entity from the parent corporation insofar as concerned the applicability of the limitations on loans and investments imposed by the Board's Regulation K, Corporations Engaged in Foreign Banking and Financing under the Federal Reserve Act. Also requested was elimination of the existing restriction in the Board's consent of December 10, 1959, to Chemical International's acquisition of Chemical Overseas, limiting its investment in Chemical Overseas to \$2.5 million.

With regard to the first of these requests, the memorandum indicated that at the time Chemical Overseas was organized the parent company, Chemical International, was regarded as a "financing" company under the then-existing provisions of Regulation K. Thus, Chemical Overseas, as a wholly-owned subsidiary, was precluded from engaging in any business not appropriate for the parent company, among which interdicted activities was the acceptance of deposits, and Chemical Overseas' charter had been written with a clause reflecting this regulatory prohibition. Thereafter, Regulation K had been amended, effective September 1, 1963, to eliminate the formal distinction between "financing corporations" and "banking corporations," thereby opening the way for a corporation

12/30/64

-4-

originally chartered as a "financing corporation" to engage in activities theretofore appropriate only for a company chartered as a "banking corporation," subject to certain more stringent limitations on lending and investment activity. Chemical International wished to take advantage of this amendment to Regulation K by having its subsidiary, Chemical Overseas, authorized to accept deposits, and it was for this purpose that the Board's consent to the proposed amendment of Chemical Overseas' charter was requested.

Collaterally, the request that Chemical Overseas be treated as a separate entity for purposes of the more stringent limitations on permissible loan and investment activity imposed on "banking corporations" under Regulation K was occasioned by the fact that under the Board's original consent to Chemical International's acquisition of Chemical Overseas it was stated that the limitations applicable to Chemical International would be determined by reference to the loans and investments of Chemical International and Chemical Overseas on a combined basis. Thus, absent receipt of the consent sought, Chemical International would be required to curtail its lending activities by reason of the acceptance of deposits by its subsidiary, since this activity would be imputed to the parent as well under the terms of the Board's original consent. Accordingly, it was proposed that the capital and surplus of the two corporations be treated as being separate and distinct for purposes of determining loan and investment limitations under Regulation K.

12/30/64

-5-

The Division of Examinations recommended that the Board grant consent to the foregoing proposals.

The third component of Chemical International's request, i.e., that the limitation on the amount that might be invested by it in Chemical Overseas be removed, was proposed because if Chemical Overseas were to engage in banking, as was contemplated, the necessity for additional capital might arise. This aspect of the request was opposed by the New York Reserve Bank in its comments accompanying transmittal of Chemical International's letter to the Board, and the Division of Examinations concurred in that opposition, arguing that it would be desirable for the Board to retain the right of review over any future proposals to increase Chemical Overseas' capital.

Attached to the memorandum of December 22 was a draft of letter to Chemical International that would reflect approval of the first two requests, subject to certain conditions, and denial of the request for removal of the limitation on its investment in Chemical Overseas.

At the Board's request, Mr. Goodman reviewed and elaborated on the information presented in the December 22 memorandum. He pointed out that the Federal Reserve Bank of New York had recommended approval of the requests for amendment of Chemical Overseas' charter and for treatment of its capital and surplus separate and apart from that of Chemical International for purposes of the loan and investment limitations of Regulation K, but with respect to the latter suggested that, in calculating

12/30/64

-6-

Chemical International's capital and surplus for purposes of its separate lending and investment limitations, it should be required to exclude the amount of its investment in Chemical Overseas, the amount so excluded to be equivalent to the carrying or book value of the investment in the subsidiary.

Mr. Goodman pointed out that insofar as concerned the proposal for the Regulation K limitations on loans and investments applicable to Chemical Overseas to be based on its own capital and surplus structure, this would seem inconsistent with the position heretofore taken by the Board that limitations applicable to a subsidiary foreign bank of a section 25(a) corporation should be based on the capital and surplus of the parent. Accordingly, he suggested that the Board might wish to consider, as an alternative to Chemical International's proposal, broadening the requested consent to permit Chemical Overseas to base its lending and liability limitations on the capital and surplus of Chemical International, provided that Chemical Overseas' status as a corporation "engaged in banking" as defined in Regulation K would be determined on the basis of its own capital and surplus rather than that of Chemical International, with the proviso that in no event should the loans and investments of Chemical International and Chemical Overseas on a combined basis exceed those permitted to Chemical International, disregarding the status of Chemical Overseas as a corporation "engaged in banking."

During the lengthy discussion that followed, Governor Mitchell suggested that Chemical Overseas probably had been formed under Panamanian

12/30/64

-7-

law for tax avoidance purposes. Assuming this was the case, he did not believe that the Board's consent should be granted. Under provisions of Regulation K, corporations could engage in banking or other international or foreign operations so long as their credit and other activities were in the interest of the United States. However, he did not feel that in this instance it would be in the interest of the United States to permit Chemical Overseas to carry on the type of operations that were contemplated, because of the tax avoidance aspects of its operations.

Governor Mills observed that while there was a possibility that tax avoidance or tax evasion was involved, and while such schemes might be distasteful, the Board in the past had not felt obliged to attempt to regulate the tax aspects of the operations of section 25(a) corporations, viewing such matters as beyond the province of its administrative responsibility over such corporations.

Responding to a question raised by Governor Mills, Mr. Goodman indicated the Division of Examinations was recommending that Chemical Overseas' lending limits to any one borrower and its limitations on total liabilities be based on its own capital and surplus, on the condition that Chemical International, in determining its own lending limits to any one borrower and limitations on its total liabilities, would exclude from its aggregate capital and surplus the net carrying value on its books of its investment in Chemical Overseas. It was recognized, of course, that this was a somewhat narrow approach. As was pointed out in

12/30/64

-8-

the Division's December 22 memorandum, if the Board wished to take a more liberal position, Chemical Overseas' limitations could be based on the capital and surplus of Chemical International without further restriction.

Governor Robertson questioned how Chemical Overseas would function if the Board did not permit amendment of its charter. In response, Mr. Goodman said that it would probably continue to operate as it now did, and Chemical Bank New York Trust Company could create a new section 25(a) corporation to engage in banking. However, this would seem to be an unnecessary administrative burden to impose upon the bank.

Governor Mitchell commented that if another corporation were formed to handle the operations now contemplated by Chemical Overseas, he would have no objection. However, as he saw the present proposal, it was a device for tax avoidance, and he would not approve the request. In his view, Regulation K should require a higher standard of responsibility than was the case where tax haven subsidiaries were formed by corporations operating thereunder.

Governor Robertson stated that he would lean toward disapproval for the reason expressed by Governor Mitchell.

Governor Daane said that he would support the recommendations of the Division of Examinations.

Governor Balderston remarked that he also would approve the request of Chemical International as being a correct supervisory decision

12/30/64

-9-

within the framework of the Board's statutory responsibility, although from the standpoint of his emotional response he was inclined to be sympathetic to the views expressed by Governor Mitchell.

There followed a discussion of the proposed letter to Chemical International, consideration of which focused primarily on the second paragraph of the draft. This paragraph would state that the Board was granting consent for Chemical Overseas to base its lending and liability limitations on its own capital and surplus, on the condition that Chemical International, in determining its limitations, would exclude from its aggregate capital and surplus the net carrying value on its books of the investment in Chemical Overseas.

In response to questions raised, Mr. Forrestal expressed the view that the request to amend the charter of Chemical Overseas should be viewed from the standpoint of Chemical International. Chemical International wished to have its wholly-owned subsidiary, Chemical Overseas, engage in deposit activities along the lines permitted to section 25(a) corporations engaged in banking. Further, Chemical International believed that from its standpoint and that of its parent, Chemical Bank New York Trust Company, it would be highly desirable for Chemical Overseas to be permitted to accept demand and time deposits and be subject to appropriate limitations on the basis of Chemical Overseas' own capital and surplus without reference to the capital and surplus of Chemical International, as would be the case if Chemical Overseas were an affiliate of Chemical

12/30/64

-10-

International, separately incorporated under section 25(a) of the Federal Reserve Act, rather than a subsidiary.

During further discussion of the draft letter, Mr. Goodman focused attention on the alternative second paragraph suggested in the memorandum of December 22. He pointed out in this connection that, although the circumstances in the instant case were unlike any heretofore considered, to accede to Chemical International's request that its subsidiary's loan and investment limitations be based on the latter's capital and surplus rather than that of the parent corporation, as reflected in the draft letter, would raise a question whether Chemical International and Chemical Overseas were being treated less, or more, favorably than other corporations. The alternative paragraph would grant consent for Chemical Overseas to base its loan and liability limitations on the capital and surplus of Chemical International, although the former's status as a "banking corporation" under Regulation K was to be determined by reference solely to its own capital and surplus. In no event, however, were the loans and investments of both corporations on a combined basis to exceed those permitted to Chemical International alone.

After a discussion of the position reflected by the alternative paragraph, the letter to Chemical International Finance, Ltd., was approved for transmittal, with the understanding that the alternative paragraph would be used. Governors Robertson and Mitchell dissented from this action. A copy of the letter, in the form sent, is attached as Item No. 3.

12/30/64

-11-

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

Report on competitive factors (Highland-Milton, New York). There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed consolidation of The First National Bank of Milton, Milton, New York, and The First National Bank of Highland, Highland, New York.

After discussion of certain facts relating to the competitive situation in this case, and in the light of suggestions made, the report was approved unanimously for transmittal to the Comptroller in a form containing the following conclusion:

The proposed consolidation of The First National Bank of Highland and The First National Bank of Milton would eliminate considerable competition between the two banks; however, in view of the relatively small size of the Milton Bank as well as the existence of other larger banking alternatives, the overall effect on competition should not be significantly adverse.

Report on competitive factors (Hallstead-Hop Bottom, Pennsylvania).

A report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The Hop Bottom National Bank, Hop Bottom, Pennsylvania, and The First National Bank of Hallstead, Hallstead, Pennsylvania, was approved unanimously for transmittal to the Comptroller.

The conclusion read as follows:

A nominal amount of competition exists between The First National Bank of Hallstead and The Hop Bottom National Bank, and the overall effect of the proposed merger on competition would not be adverse.

12/30/64

-12-

Mr. Egertson then withdrew from the meeting.

Mission to Honduras (Item No. 4). There had been distributed a memorandum from Mr. Young dated December 28, 1964, with respect to a letter of November 25, 1964, from President Ramirez of the Central Bank of Honduras. President Ramirez requested a mission from the Federal Reserve System for the purpose of making an evaluation of the policies and systems of operation of the Central Bank of Honduras, with a view to improving the services of that institution. He had indicated informally that the services of two persons for a period of less than one month would be in accord with his request.

Mr. Young recommended that Robert L. Sammons, Adviser, Division of International Finance, and James Vergari, Vice President of the Federal Reserve Bank of Philadelphia, be designated to undertake the mission for a period of three to four weeks beginning on or about January 18, 1965; President Bopp of the Philadelphia Reserve Bank had indicated informally that he would be willing to have Mr. Vergari participate. It was further recommended that Mr. Sammons be authorized to undertake the foreign travel necessary to perform this assignment, that the Central Bank of Honduras be requested to pay the necessary travel and hotel costs, and that Mr. Sammons be reimbursed for any actual expenses that he might incur, including official entertainment on behalf of the mission.

There being no objection, the recommendations contained in Mr. Young's memorandum of December 28 were approved unanimously. A copy

12/30/64

-13-

of the letter sent to the Central Bank of Honduras with respect to this matter is attached as Item No. 4.

Gold reserve proposal. There had been distributed with a memorandum from Mr. Hackley dated December 28, 1964, drafts of proposed letters that were to be sent by the Treasury Department to Congress recommending enactment of a proposed bill to eliminate the present 25 per cent gold reserve requirement against deposit liabilities of the Federal Reserve Banks. The proposed letters would point out that by the end of 1964, the ratio of Federal Reserve gold certificate reserves to the aggregate note and deposit liabilities had declined to 28 per cent, a drop of almost 2 per cent in the space of a year. This decline in the ratio primarily reflected the growth both in Federal Reserve notes in circulation and in Federal Reserve deposits that accompanied the expansion of the economy. Based on recent rates of increase in currency in circulation and in deposits with Federal Reserve Banks, the legal minimum reserve would be reached within about two years, even without any reduction in holdings of gold. Continuation of the present reserve requirement could thus artificially impede the orderly expansion of money and bank credit essential to support future domestic growth and prosperity. The draft letters would go on to state that the Treasury had concluded, in consultation with the Board of Governors, that an appropriate way to meet the problem over the years ahead, while at the same time retaining complete confidence in the currency, would be to

12/30/64

-14-

eliminate the requirement for the maintenance of reserves against deposits while retaining it against Federal Reserve notes.

At Governor Balderston's request, Mr. Hackley reviewed the circumstances surrounding receipt of the Treasury draft letters. He noted that the drafts had been received at the Board with a transmittal note from the Treasury's Assistant General Counsel, who had indicated that the proposed letters had been sent by the Treasury to the Bureau of the Budget on December 24, 1964. Presumably, the Bureau of the Budget in the near future would request the views of the Board regarding the proposal.

Governor Balderston noted that the Treasury draft letters had not been included for discussion on today's agenda. However, since it seemed likely that the Budget Bureau would request the Board's views within the next several days, he thought it desirable for the Board to indicate the kind of data that should be prepared by the staff in connection with consideration of the Treasury proposal.

Governor Mills indicated that aside from the procedural aspects, he questioned whether the Treasury proposal was an appropriate one for the Board to support, and, even if a majority of the Board should support such a measure, whether it was the correct time to do so.

Referring to the Treasury draft letters, which would be sent to the President of the Senate and to the Speaker of the House, Governor Mills suggested that they contained one sentence that could be misread:

"We have concluded, in consultation with the Board of Governors of the Federal Reserve System, that an appropriate way to meet this problem over the years ahead, while at the

12/30/64

-15-

"same time retaining complete confidence in our currency, would be to eliminate the requirement for the maintenance of reserves against deposits while retaining it against Federal Reserve notes."

He stated that in the opinion of those who were in opposition to the removal of gold reserve requirements, it was argued that removal of the requirement on deposits would be a destructive step in regard to confidence in our currency. Moreover, the phrase "over the years ahead" would convey the impression that the Board foresaw no need in the near future to recommend to Congress removal of the gold reserve requirement on Federal Reserve notes, and this could unduly hamper flexible response to further developments. Apart from this, however, any reference even to the future possibility of tampering with the statutory gold cover on Federal Reserve notes could be a bombshell, because of current concern in some quarters over the possibility that the dollar would be devalued.

There followed a general discussion of the Treasury draft letters and of the position the Board should take with respect to gold reserve requirements. During this discussion it developed to be the view of a majority of the Board members who were present that there were persuasive arguments for abolishing gold certificate reserve requirements altogether. However, recognizing the recent downward trend in gold certificate reserve ratios, which demonstrated the need for prompt modification of the statutory reserve requirements, it seemed desirable not to emphasize abolishment of such requirements altogether but rather to have noted in the Treasury letters that an appropriate way to meet the immediate problem

12/30/64

-16-

would be elimination of the requirement for reserves against deposits. In this connection, it was agreed to suggest that the phrase "over the years ahead" be deleted from the Treasury's draft letters, since it was possible that the Board might wish to recommend removal of the requirement against Federal Reserve notes at some point sooner than "over the years" would imply. It was understood that a suggestion to delete the phrase would be made to the Treasury following further discussion of its proposal when the Budget Bureau's request for comments was received.

All members of the staff except Mr. Sherman then withdrew from the meeting.

Loan of Reserve Bank officer. Governor Robertson stated that President Ellis of the Federal Reserve Bank of Boston had raised the question of loaning Mr. Berge, Vice President of that Bank, to Arthur D. Little, Inc., for a period of one week to assist in connection with a contract which the Little company had with the Province of Manitoba, Canada, and the Manitoba Development Fund. Mr. Berge's services were desired in the area of credit analysis, and officials of the Little company had assured the Bank that no profit or other fees would accrue to them as a result of the services of Mr. Berge. The Bank was prepared to approve a leave of absence without salary for Mr. Berge for the one-week period in order to permit him to undertake the assignment unless there was some strong objection on the part of the Board. Governor Robertson went on to say that he had indicated to Mr. Johnson, Director

12/30/64

-17-

of the Division of Personnel Administration, who had reported this matter to him, that in view of the time factor in complying with the request he would not object in this case, but that he did have some question as to the propriety of an arrangement whereby an officer or employee of a Reserve Bank or the Board was loaned to a private organization for a purpose not directly connected with work of the Federal Reserve System or some public purpose. He understood, however, that there had been other instances of loans of personnel not only to governmental agencies in the United States but to non-governmental agencies in some instances. He was bringing the matter to the attention of the Board with the thought that consideration should be given to the issuance of uniform instructions to all of the Reserve Banks regarding such service.

Mr. Sherman noted that the Board had outstanding a letter to all Reserve Banks asking that it be informed of any loans of personnel to governmental agencies, but that it did not bear directly on the matter of a loan to a private employer.

Comments of the other members of the Board indicated that they would not object to the loan of Mr. Berge's services on a leave-without-pay basis for the one week in question, but the suggestion was made that this general subject be reviewed by the Board at a later date.

The meeting then adjourned.

Secretary's Notes: Acting in the absence of Governor Shepardson, Governor Robertson approved on behalf of the Board on December 29, 1964, a memorandum from the Division of Research and Statistics recommending the appointment of Elliott S. Sherrell as Statistical Clerk in that Division, with basic annual salary at the rate of \$4,630, effective the date of entrance upon duty.

12/30/64

-18-

Acting in the absence of Governor Shepardson, Governor Robertson today approved on behalf of the Board the following items:

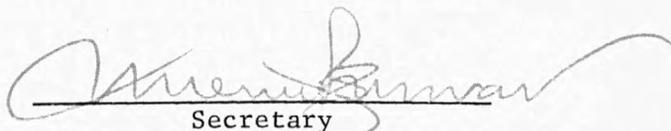
Memorandum from the Division of Personnel Administration dated December 30, 1964, recommending the reappointment, on the terms previously approved, of 10 consultants for the calendar year beginning January 1, 1965, as requested by the following Divisions:

<u>Division</u>	<u>Consultants</u>
Office of the Secretary	E. R. Wicker
Research and Statistics	George L. Bach Dorothy S. Brady Francis R. Pawley Almarin Phillips Gertrude Weiss
Bank Operations	Eugene E. Witherell
Office of Defense Planning	James W. Allison Frank J. Keeler Charles F. O. Raikes

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

Salary increases, effective January 3, 1965

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>International Finance</u>			
Peggy H. Reaves, Supervisor, International Information Center (change in title from Senior Clerk)		\$5,660	\$6,060
<u>Personnel Administration</u>			
Linda L. Cochran, Stenographer		4,005	4,480


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
12/30/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 30, 1964.



Mr. Robert H. Brome,
General Counsel and Secretary,
Bankers Trust Company,
280 Park Avenue,
New York 15, New York.

Dear Mr. Brome:

Reference is made to your letter of December 4, 1964 stating that you wish to combine the activities of your wholly-owned subsidiaries, Bankers International Financing Company, Inc. ("BIFC") and Bankers International Corporation ("BIC") effective as of the close of business December 31, 1964, under a plan whereunder-

- 1) Bankers Trust Company will contribute all of the outstanding shares of capital stock of BIC presently owned and held by Bankers Trust Company to BIFC as a capital contribution;
- 2) BIFC will acquire the assets and assume the liabilities of BIC;
- 3) BIC will be liquidated and dissolved;
- 4) The name of BIFC will be changed to BIC.

In accordance with your request and the plan outlined in your letter of December 4, 1964 and attachments thereto, and the representations made therein, the Board of Governors approves the plan as outlined and grants consent for BIFC to acquire and hold, under the authority of Section 211.8(b) of Regulation K as revised September 1, 1963, all of the securities now held by BIC, and approves the acquisition and holding of shares of 1'Union des Mines-La Henin within the terms of the above consent in excess of 15 per cent of BIFC's capital and surplus.

In accordance with your request, and pursuant to the provisions of Section 211.3(a) of Regulation K, as revised effective September 1, 1963, the Board of Governors approves amendments to

Mr. Robert H. Brome

-2-

ARTICLE FIRST and ARTICLE SECOND) of the Articles of Association of Bankers International Financing Company, Inc. so as to read:

"FIRST. The name of the Corporation shall be 'Bankers International Corporation.'

"SECOND. This Corporation is organized for the purpose of engaging in international or foreign banking and international or foreign financial operations within the limitations prescribed in Section 25(a) of the Federal Reserve Act and regulations thereunder, either directly or through the agency, ownership or control of local institutions in foreign countries or in dependencies or insular possessions of the United States."

Your letter of December 4, 1964 refers to the Board's letter of June 23, 1964 to BIC which indicated that all net earnings of BIC should be set aside into a valuation reserve against the shares of Union des Mines-La Henin until the reserve equals the difference between the cost of the shares and their then current market value. You have requested that the Board permit the surviving Corporation to satisfy this suggestion by transferring from accumulated earnings of the two Corporations to a Securities Valuation Reserve the sum of \$100,000. You state that you expect to review the adequacy of the reserve from time to time in the light of the then status of the portfolio of equity investments and that realized losses will be charged to the reserve and, to the extent deemed necessary, realized gains will be credited thereto.

On the basis of this representation, the Board rescinds the provisions of the third sentence in the last paragraph of its letter of June 23, 1964 with respect to setting aside net earnings of BIC into a valuation reserve against the shares of UdMLH.

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
12/30/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 30, 1964.



Mr. Joseph R. Campbell, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania. 19101

Dear Mr. Campbell:

This refers to the question whether section 32 of the Banking Act of 1933 ("section 32" and "the Act") forbids the interlocking service of Mr. Charles T. Weiland, Tinker Hill Lane, Phoenixville, Pennsylvania, as a director of the Farmers and Mechanics National Bank of Phoenixville, and vice president of Greeley and Company, Inc., 1500 Walnut Street, Philadelphia, Pennsylvania ("Greeley"). The question was discussed and relevant factual information submitted to the Board in your letters of February 24, 1964, June 8, 1964, and November 23, 1964; and in letters to you from Greeley of June 5, 1964, and November 11, 1964, and a letter to you from Mr. Weiland of November 18, 1964, all of which have been forwarded by you to the Board. You have also supplied the Board with copies of your letters of October 22, 1964, to Mr. Weiland and to Mr. C. William Kern, Vice President and Cashier of Greeley.

Section 32, as you recall, forbids any "officer, director, or employee of any corporation . . . (or any) individual, primarily engaged . . ." in the activities described in the section, to serve at "the same time as an officer, director, or employee of any member bank . . ." with certain exceptions not here relevant.

The activities described in section 32 are the "issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities". Footnote (1) to the Board's Regulation R, interpreting the section, explains that this language ". . . does not apply-- . . . [to] a broker who is engaged solely in executing orders for the purchase and sale of securities on behalf of others in the open market. . . ."

Greeley is a small firm with only three salaried employees. According to the information supplied it does not function as a dealer and does not take positions in securities, despite the fact that it has held itself out in a standard directory of underwriters in North America as "dealers" in various types of securities. Mr. Kern stated in a telephone conversation with a member of the Board's staff that the only occasion when

Mr. Joseph R. Campbell

-2-

it formed part of an underwriting syndicate during the years from 1960 forward, the period for which information was submitted, was in connection with the issue of Comsat stock, when it was allotted a few hundred shares by a major brokerage house.

However, Greeley has derived a portion of its income from sales of mutual fund shares. Assuming the sales are handled in the customary manner, this segment of its business would, in the Board's view, be an activity of the kind described in section 32. In the years 1960 and 1961, sales of mutual fund shares comprised about a quarter of gross business of the firm. However, such sales were 10 per cent and 12 per cent of such business in 1962 and 1963, respectively, and were running during the first five months of 1964 at an 8 per cent rate. Net income for mutual fund sales has been 10 per cent or less of total gross income of the firm after, and about 5 per cent before, deduction of commission to salesmen. Gross business of the firm was about \$1 million in 1960 and 1961, and about \$1.5 million in 1962 and 1963.

Mr. Weiland states that he has, himself, been engaged in the brokerage business only since 1962. His commissions from mutual fund sales have not exceeded \$200 a year, against total commissions of about \$3 thousand and up. He received a commission of \$12.30 in respect to the distribution of Comsat stock.

Although the question as to Greeley is not entirely free from doubt, the Board is of the opinion that neither Greeley nor Mr. Weiland should now be regarded as "primarily engaged" in the activities described in section 32. As a result, the Board concludes that Mr. Weiland's interlocking service as an officer of Greeley and a director of a member bank is not forbidden by the Act, or by the Board's Regulation R. It should be emphasized that this conclusion is based upon its understanding of the facts which have been laid before it, as summarized above, and that different or additional facts might require a different conclusion. In view of the closeness of the question, especially as to Greeley, and the fact that mutual fund sales in 1960 and 1961 represented a higher proportion of the firm's gross business than in the more recent period, the Board would appreciate it if you would review the matter at the close of 1965 and report any significant changes which may have taken place during the coming year.

It would be appreciated if you would communicate the substance of this letter to Greeley and to Mr. Weiland.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 3
12/30/64

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 30, 1964.



Chemical International Finance, Ltd.,
20 Pine Street,
New York, New York 10015.

Gentlemen:

In accordance with the request and on the basis of information furnished in your letter of October 20, 1964, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants its consent for Chemical Overseas Finance Corporation ("COFC"), Hamilton, Bermuda, to amend its charter to permit the acceptance of time and demand deposits.

The Board also grants consent for COFC to base its lending limits to any one borrower and limitations on its total liabilities on the capital and surplus of CIF, provided that its status as a Corporation "engaged in banking", as defined in Regulation K, shall be determined on the basis of its own capital and surplus rather than that of CIF. However, in no event shall the loans and investments of CIF and COFC on a combined basis exceed those permitted to CIF (disregarding the status of COFC as a Corporation "engaged in banking").

Please furnish the Board of Governors, through the Federal Reserve Bank of New York, a copy of the amendment to the charter or Articles of Association of COFC, when adopted.

With respect to your request that the Board consider eliminating the provisions of the first paragraph on the second page of the Board's letter of December 10, 1959, which limits the amount which CIF may invest in COFC (including all loans to such subsidiary) to \$2,500,000, the Board would prefer to give consideration to specific requests, as made from time to time, for further investment in COFC by CIF, as contemplated by Section 25(a) and Regulation K.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 4
12/30/64

OFFICE OF THE VICE CHAIRMAN

December 30, 1964



Mr. Roberto Ramirez, President,
Banco Central de Honduras,
Tegucigalpa, Honduras.

Dear Mr. Ramirez:

In further reference to your letter of November 25, I am pleased to inform you that the Board has approved a Mission to your Bank consisting of Mr. James Vergari, Vice President of the Federal Reserve Bank of Philadelphia, and Mr. Robert L. Sammons, Adviser to the Board's Division of International Finance. If it meets with your approval, these men will plan to arrive in Tegucigalpa on or about January 18 for a stay of about three weeks.

In the meantime, if you would like to be more specific in terms of the problems to which you would like the Mission to devote its attention, please get in touch with Mr. Sammons.

I understand that the travel and expenses in Honduras of the 1956 Mission were borne by your Bank but that there was no charge for the services of the Mission as such. This seems to us to be an appropriate division of the cost; if you agree we would appreciate hearing from you to that effect.

Sincerely yours,

(Signed) C. C. Balderston

C. Canby Balderston,
Vice Chairman.