Minutes for February 9, 1965

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
Proposed investments by Bank of America. As detailed in a distributed memorandum from the Division of Examinations dated February 1, 1965, Bank of America, New York, New York, had requested consent to acquire 50 per cent of the stock of Banco Soler y Torra, S. A., a commercial bank of Madrid, Spain, at a cost of approximately $500,000 and 50 per cent of the stock of a proposed investment bank
to be named Banco Intercontinental Espanol, with head office in Madrid and a branch in Barcelona, at a cost of approximately $4,175,000.

During discussion of these proposals reference was made to the President's forthcoming balance of payments message and the relationship of proposed investments by Edge Act corporations, particularly in developed countries, to the program that might be outlined in the President's message. It was decided to defer action on the Bank of America proposals until after release of the President's message, with the thought that consideration could then be given to these and other proposed investments by Edge Act corporations in the light of whatever standards seemed appropriate within the context of the President's program.

Request to file brief as amicus curiae (Item No. 1). After comments by Miss Hart in supplementation of a distributed memorandum from the Legal Division dated February 5, 1965, unanimous approval was given to a letter to the Federal Reserve Bank of Boston indicating that the Board did not believe it would be appropriate to comply with a request to file an amicus curiae brief in connection with certain litigation involving questions relating to various sections of the Securities Exchange Act of 1934 and Regulation T, Credit by Brokers, Dealers, and Members of National Securities Exchanges. A copy of the approved letter is attached as Item No. 1.
Miss Hart and Mr. Forrestal then withdrew and Mrs. Sette, Chief, Economic Editing, Division of Research and Statistics, entered the room.

Proposed legislation. Pursuant to discussions at recent meetings of the Board, there had been distributed with a memorandum from Mr. Hackley dated January 28, 1965, a draft of a section on proposed legislation for inclusion in the Board's Annual Report for 1964.

Referring to the matters covered in the draft material, Mr. Hackley explained that proposed bills and transmittal letters were ready to be sent to Congressional committees on most of the Board's contemplated legislative recommendations. The holding company bill and the bill to extend margin regulations to securities traded over the counter were not yet ready; and the Board had decided not to submit legislative proposals at this time on reserve requirements or the underwriting of revenue bonds by commercial banks. The draft material for the Annual Report had been prepared in conformity with the Legal Division's understanding of views expressed at previous meetings of the Board, but there might be additional suggestions of an editorial nature or otherwise. The Legal Division had a few minor changes of wording, not affecting substance, that it would like to incorporate.

Mr. Hackley then said that Mr. Solomon had raised a question whether anything should be included in the Annual Report with respect to the issuance of capital notes and debentures by banks.
Mr. Solomon stated that this question had originated with the New York Reserve Bank, which suggested that it was becoming essential to clarify the status of capital notes and debentures and to place their issuance under regulatory control. Under legislation such as the Reserve Bank envisaged, a bank could not issue such securities unless authorized by the Board; the Board would issue regulations stating the terms under which such securities could be issued; such securities would be treated as capital for purposes of the Federal banking laws; and no such securities could be retired without Board approval. A main issue was whether the Board's authority should apply to all member banks or to State member banks only.

In the discussion that followed, some of the members of the Board who spoke on the subject indicated that they were sympathetic toward the general idea of legislation being needed in the area mentioned. However, there was not only the question whether to seek legislation that would authorize Board regulations applicable to all member banks or to State member banks only, but also questions relating to the manner in which regulation might be undertaken most effectively. It was the consensus that the subject should be developed more fully so that the Board would be in better position to reach a mature judgment. Accordingly, the Legal and Examinations Divisions were requested to prepare a memorandum for the Board's
2/9/65

-5-

consideration. This meant that in view of the time limitation the subject would not be dealt with in the Annual Report.

With reference to the draft material on proposed legislation that had been distributed by Mr. Hackley, Governor Daane expressed dissatisfaction with the portion of the draft on reserve requirements which cited a "recommendation" of the President's Committee on Financial Institutions in 1963 that a system of graduated reserve requirements be adopted. He felt that this language did not convey the full flavor of the outcome of the Committee's deliberations. As indicated in its report, the Committee had reached a conclusion, not a recommendation, that a graduated system be adopted as a transitory step toward uniform reserve requirements.

Governor Mitchell indicated he agreed with the sentence of the draft material prepared for the Annual Report that would precede the language to which Governor Daane referred. This sentence stated that while uniform reserve requirements applied to all banks would bring certain advantages, there was also much to be said for preserving the aspect of the present structure that placed lower requirements on smaller banks. If the reference to the President's Committee was retained, however, he would not object to citing the exact language of the Committee's report, without indicating that it was necessarily endorsed by the Board.

After further discussion a generally acceptable statement was worked out that would quote the language of the report of the
President's Committee and thereby overcome the objection raised by Governor Daane, while on the other hand not going so far as to indicate that this necessarily reflected a firm conclusion on the part of the Board.

This change having been agreed upon, the draft language for the Annual Report submitted by Mr. Hackley was approved for inclusion in the section of the Report on proposed legislation, subject to possible further editorial changes not affecting substance.

Mr. Goodman then withdrew from the meeting.

Manager's Review. There had been distributed a memorandum from Mr. Molony dated February 3, 1965, to which was attached a Review on Operations in Domestic Securities, prepared by the Manager of the System Open Market Account and proposed for inclusion in the Board's Annual Report for 1964. It would follow the record of policy actions of the Federal Open Market Committee.

In discussion Governor Daane noted several sections of the report where he felt that changes or deletions could profitably be made, and means of accommodating these suggestions were agreed upon. Governor Daane also indicated that he would pass on to Mr. Molony certain suggestions for minor language changes not going to substance, and it was understood that other members of the Board might likewise transmit suggestions of such kind. Agreement also was reached on
certain language changes that it was felt would help to clarify the review for readers thereof.

Subject to the foregoing changes, the review was approved for inclusion in the Annual Report.

Mr. O'Connell and Mrs. Sette then withdrew and Mr. Reynolds, Associate Adviser, Division of International Finance, entered the room.

Foreign lending by U. S. banks. There had been distributed under date of February 8, 1965, a draft of circular that might be sent by the Presidents of the Federal Reserve Banks to member banks concerning the President's balance of payments message to the Congress scheduled for delivery later this week and the program included therein (on the basis of existing information) to bring about improvement in the balance of payments, particularly the voluntary program for limiting bank lending to foreigners. It had been contemplated in preparing the draft that such a circular would be sent to member banks immediately following the release of the President's message.

In discussion it was agreed that it would be appropriate to send such a circular to nonmember as well as member banks. It was also agreed that it would seem appropriate to make some reference in the circular to nonbank financial institutions, in prospect that their foreign lending activities might likewise fall under the Federal Reserve program.
Question was raised with respect to the portion of the draft circular indicating that advisory committees would be appointed from representative banks to meet with the Federal Reserve Banks concerning problems that might arise in implementing the voluntary program. From the ensuing discussion it developed that there had been no intent on the part of the drafters to suggest the establishment of a network of regional committees to pass on proposed loans and investments in the manner of the committees established under the Voluntary Credit Restraint Program that was in effect in 1951-1952. However, it was envisaged by Mr. Holmes that the Federal Reserve Banks were going to run into a number of practical problems as the program developed, and he felt it would be helpful to have groups of experienced people from the banking community to turn to for technical advice. He felt that some of these problems would be local in nature, which suggested that such committees might be useful in several of the Federal Reserve Districts. On the other hand, the use of such committees might have antitrust implications, and this would have to be borne in mind, at least until legislation was obtained to provide antitrust immunity for voluntary agreements and programs of various kinds that might be developed in connection with the implementation of the bank lending restraint effort.

Governor Mitchell suggested the possibility that committees so organized might not come to uniform positions. This led him to
feel that at the outset of the program, at least, advice should be obtained by the Board from a single technical committee, which advice could be disseminated among such local committees as might be established thereafter.

Governor Robertson then suggested language for the proposed circular that would be flexible in nature. It would state simply that technical advisory committees might be invited to meet with Federal Reserve officials concerning problems that arose under the System's program. There was general agreement with this approach.

With regard to the portion of the draft circular which stated that the System was requesting banks to limit credits to foreigners that were not clearly and directly to finance exports of U. S. goods and services, so that the total amount of credits to foreigners (including export credits) outstanding in 1965 would not exceed by more than 5 per cent the amount outstanding on their books as of December 31, 1964, Governor Mitchell raised the question whether it would not be better to request banks to hold their foreign credits to the amount outstanding at the end of 1964. The 5 per cent figure could be borne in mind within the Federal Reserve System and reserved for possible use if necessary.

Mr. Young noted that some banks might already have gone 5 per cent or more above their outstandings at the end of 1964. He
also said it was the staff view that some guideline was needed for statistical purposes, and he noted that the System would be asking for periodic reports from the banks. One question, he added, was whether anything should be said initially about the matter of reporting or whether the banks should be advised later concerning required reports.

There followed further discussion of the desirability of announcing a target such as the 5 per cent figure. There was also discussion as to how the 5 per cent limit would be interpreted in terms of the amounts of credit that could be outstanding at various times during the year 1965 without causing a bank to be regarded as having exceeded the limit. During this discussion the point was made that if no limitation was expressed that included export credits there would be the risk of a great deal of financing being done under the guise of export credits.

As to reasons why the 5 per cent figure had been included in the current draft, Mr. Reynolds said the staff reasoned that if a 5 per cent leeway was allowed, rather than specifying no increase from outstandings at the end of 1964, this was a limit that could be applied more severely. It would allow a bank some flexibility and yet be relatively easy to deal with in appraising the effectiveness of the program. Further, if banks remained within such a limit, this would mean that in the aggregate about $1.5 billion less foreign credit would be extended in 1965 than in 1964.
Other target possibilities also were mentioned. In several instances, however, it was pointed out either that they would be quite complex or would represent a considerable cutting back of outstanding credits. Involved in this discussion was an opinion that the Federal Reserve should avoid any procedure that would make it necessary for the Reserve Banks to go over individual bank loans. Instead, it would seem desirable, according to this opinion, for the program objective to be set out in such manner as to leave to individual banks the decision on how to manage their affairs while remaining within the range of an announced over-all objective. An opinion likewise was expressed that it would be undesirable to set up procedures that would involve an unduly complicated reporting burden.

At the conclusion of the discussion it was understood that a revised draft of circular to be mailed to member and nonmember banks by the Federal Reserve Banks would be prepared by the staff on the basis of views that had been expressed at this meeting.

All members of the staff then withdrew and the Board went into executive session.

Dinner in connection with Paris meetings. Governor Shepardson later advised the Secretary's Office that during the executive session the Board considered a memorandum from Mr. Young dated February 5, 1965, and, as suggested in that memorandum, authorized the payment
of an amount up to $250 toward the cost of a dinner in honor of the Under Secretary of the Treasury for Monetary Affairs to be held in connection with the meetings of Working Party 3 and the Economic Policy Committee of the Organization for Economic Cooperation and Development scheduled to be held in Paris during the week of February 15-18, 1965. Travel by Mr. Young to attend the Paris meetings, on an actual expense basis including an allowance for official entertainment, also was authorized.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Memorandum from Harlow D. C. Osborne, Chief, Consumer Credit and Finances Section, Division of Research and Statistics, requesting permission to write an article for the April 1965 issue of the London Financial Times.

Memorandum from Edward C. Ettin, Economist, Division of Research and Statistics, requesting permission to teach a course in money and banking for George Washington University.
Mr. Ansgar R. Berge,
Vice President,
Federal Reserve Bank of Boston,
Boston, Massachusetts 02106

Dear Mr. Berge:

This refers to your letter of January 29, 1965, with which you forwarded to the Board a letter by Mr. Peter R. Tritsch of the law offices of Mark M. Horblit, Boston, Massachusetts, and a copy of the opinion and judgment of the United States District Court for the District of Massachusetts in the case of Bronner v. Goldman, Civil Action No. 61-374-C, December 30, 1964. Mr. Tritsch is attorney for the plaintiff, Mrs. Bronner. The Court granted judgment for the defendant, and Mr. Tritsch states that he would "welcome the possibility of the Board of Governors . . . filing an amicus curiae brief after notice of appeal has been filed."

Mr. Tritsch raises, and your letter discusses, a number of issues arising out of Regulation T and the Securities Exchange Act of 1934 which might be raised or could be relevant to an appeal. The Board agrees with your view that, in respect to Regulation T, these issues seem to relate to the questions whether Mr. Homsey, a broker who advised the plaintiff, was a "creditor" and the plaintiff a "customer" within the meaning of sections 220.2(b) and 220.2(c) of Regulation T, and if so, whether Mr. Homsey "arranged" certain loans in violation of section 220.7(a) of the Regulation. Interpretations of the Board which might be relevant to these issues include 1938 Federal Reserve Bulletin 763 and 951, 1939 Bulletin 961, and 1953 Bulletin 950.

Regardless of the issues that might be raised relating to Regulation T, it appears, as your letter points out, that, assuming a finding as to a violation thereof, the principal thrust of the appeal will relate to the effect of such violation on the rights of
the plaintiff under section 29(b) of the Act. Since the statutory
scheme confines the Board's responsibility almost entirely to
prescribing margin requirements "for the purpose of preventing
the excessive use of credit for the purchase or carrying of securities",
under section 7 of the Act, the Board does not believe it would be
appropriate to file a brief in this matter. It would be appreciated
if you would advise Mr. Tritsch of the Board's views.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.