

Minutes for May 26, 1965.

To: Members of the Board

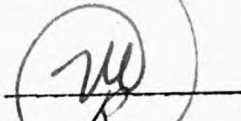
From: Office of the Secretary

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

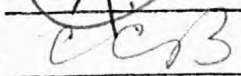
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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.

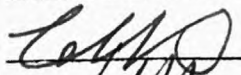
Chm. Martin



Gov. Robertson



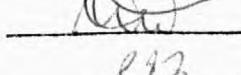
Gov. Balderston



Gov. Shepardson



Gov. Mitchell



Gov. Daane



Gov. Maisel

Minutes of the Board of Governors of the Federal Reserve
System on Wednesday, May 26, 1965. The Board met in the Board Room
at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank
Operations
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Daniels, Assistant Director, Division of
Bank Operations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mrs. Semia, Technical Assistant, Office of the
Secretary
Miss Hart and Mr. Via, Senior Attorneys, Legal
Division
Mr. Robinson, Attorney, Legal Division
Mr. Smith, Senior Economist, Division of
Research and Statistics
Mr. Wiles, Economist, Division of Research and
Statistics
Messrs. Egertson and McClintock, Supervisory
Review Examiners, Division of Examinations
Messrs. Lyon and Poundstone, Review Examiners,
Division of Examinations

Discount rates. The establishment without change by the Federal
Reserve Bank of Boston on May 24, 1965, of the rates on discounts and

5/26/65

-2-

advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

Circulated or 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 Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, approving the establishment of a branch in the Westport Road Shopping Center, Jefferson County.	1
Letter to Industrial State Bank of Kalamazoo, Kalamazoo, Michigan, approving the establishment of a branch on East Crosstown Parkway.	2
Letter to Wells Fargo Bank, San Francisco, California, approving the establishment of a branch in Middletown.	3
Letter to Morgan Guaranty International Banking Corporation, New York, New York, granting permission to purchase additional shares of Credito Bursatil S.A., Mexico, D.F., Mexico.	4
Letter to Midland National Bank, Milwaukee, Wisconsin, granting its request for permission to maintain reduced reserves.	5
Letter to Northeast National Bank, San Antonio, Texas, granting its request for permission to maintain reduced reserves.	6
Letter to the Federal Deposit Insurance Corporation regarding the application of The Farmers and Merchants Bank, Boswell, Indiana, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	7

5/26/65

-3-

Item No.

Letter to the Bureau of the Budget reporting on H. R. 6497, an enrolled bill "To amend the Bretton Woods Agreements Act to authorize an increase in the International Monetary Fund quota of the United States."

8

Application of Denver U. S. Bancorporation (Items 9-11). There had been distributed drafts of an order and statement reflecting the Board's approval on April 27, 1965, of the application of Denver U. S. Bancorporation, Inc., Denver, Colorado, for permission to acquire at least 50 per cent of the voting shares of Weld County Bank, Greeley, Colorado. A concurring statement by Governor Robertson had also been distributed.

The issuance of the order and statement was authorized. Copies of the documents are attached as Items 9 and 10. A copy of Governor Robertson's concurring statement is attached as Item No. 11.

Messrs. Lyon and Poundstone then withdrew from the meeting.

Large denomination Federal Reserve notes (Item No. 12). On March 15, 1965, on the basis of a distributed memorandum from Mr. Farrell dated March 11, 1965, the Board discussed a question raised by President Scanlon of the Federal Reserve Bank of Chicago as to the continued availability of Federal Reserve notes in denominations of \$500 and \$1,000. No new notes in those denominations had been printed since 1945, and of the remaining stocks some Reserve Banks had only a few notes while the New York and Boston Banks had a relatively large supply. The matter

5/26/65

-4-

involved questions whether the need for large denomination notes was so limited that their issuance should be discontinued and notes now in circulation retired as they reached the Reserve Banks; whether, as the Treasury Department surmised, the notes were used to a significant extent for purposes such as tax evasion; and whether there was sufficient evidence of such misuse to suggest that large bills now in circulation should be called for redemption. In a letter of March 17, 1965, the Presidents of the Federal Reserve Banks were asked for information bearing on these questions.

There had now been circulated a memorandum dated May 11, 1965, in which the Division of Bank Operations summarized the replies of the Reserve Bank Presidents. The Chicago and Dallas Banks would prefer to continue issuance of the large denomination notes, while the other 10 Banks concluded that their issuance might be discontinued on a System basis and notes received from circulation retired. None of the Banks favored calling in the notes for redemption. The Reserve Banks had little specific knowledge of the purposes for which the bills were requested, but a variety of known legitimate uses were mentioned. Attached to the memorandum was a draft of letter to President Bopp, Chairman of the Conference of Presidents, requesting that the subject be placed on the agenda for the meeting of the Conference on June 14, 1965.

Governor Mitchell inquired why the Reserve Bank Presidents should be asked to discuss the subject at their forthcoming meeting

5/26/65

- 5 -

unless the Board had a specific proposal to offer, which did not seem to be the case. As he read the comments that had been made, it would be difficult to withdraw the higher denomination notes from circulation except on the ground that they were being used for illegal transactions. Any such uses presumably could be controlled through the reports of unusual currency transactions that banks had made for many years pursuant to a request from the Treasury Department (the TCR reports).

There ensued a discussion of the possibility of redistributing among the Reserve Banks the present stock of large denomination notes. It appeared that such a redistribution would enable all of the Reserve Banks to continue to pay out the notes upon request for some time to come. However, a Reserve Bank might be reluctant to supply its notes, against which it must maintain gold reserves, to another Reserve Bank. The reserves of the Banks were at present comfortably above the statutory minimum, since Public Law 89-3, approved on March 3, 1965, had removed the reserve requirement as to deposit liabilities, but there could be a time in the future when a pinch again would be felt.

It was observed that President Scanlon's position had been that either issuance of the large denomination notes should be discontinued at all Federal Reserve Banks or it should be made possible for each Reserve Bank to have a stock to enable it to continue issuance. The willingness indicated by 10 of the Reserve Banks to discontinue issuing large notes had not been based on possibilities of misuse of the notes

5/26/65

but rather on the lack of apparent need for the notes and consequently the lack of justification for the administrative burden. Comment was made that, although the Board had not taken a position on the question raised by President Scanlon, the Federal Reserve Loose-Leaf Service contained a letter of June 26, 1946 (S-920), in which the Board stated that, after considering viewpoints solicited from the Federal Reserve Banks, it would adhere to its previous action directing that no further printings of notes in denominations of \$500 and over be requested. However, it would offer no objection to the paying out of currency in such denominations by the Federal Reserve Banks as long as the present stocks lasted.

After further discussion relating principally to the history of views expressed by the Treasury Department, it was agreed to request that the Conference of Presidents discuss the possibility of having Reserve Banks that wished to have large denomination bills available, but lacked the necessary stocks, purchase such stocks from other Reserve Banks that had sufficient supplies. Pursuant to this action a letter was sent to Chairman Bopp of the Conference of Presidents in the form attached as Item No. 12.

Application of Riverside Trust Company. There had been distributed a memorandum from the Division of Examinations dated May 11, 1965, regarding the application of Riverside Trust Company, Hartford, Connecticut, to merge with Bristol Bank and Trust Company, Bristol, Connecticut. The Division recommended approval. (The title of the resulting bank would be United Bank & Trust Company.)

5/26/65

-7-

Summary comments by Mr. Leavitt were followed by questions, to which the staff responded, on the extent to which banks in Hartford drew business from Bristol and on what definite information was available in support of the alleged need for a larger loan limit in Bristol.

Governor Robertson then stated that he would approve the application. He did not regard the banking factors as strong, but there might be some need for a larger loan limit in Bristol. The competitive aspects did not appear to be strongly adverse. He much preferred to see Riverside Trust, rather than one of the two large banks in Hartford, each of which was more than ten times the size of Riverside Trust, seek a merger with the Bristol bank. However, the circumstance that he felt gave greatest weight toward approval was the strength of the mutual savings bank that operated in Bristol, which now held more than two-thirds of the community's total deposits.

Governor Shepardson said that he would approve. He thought the merger would probably serve a definite community interest, and the competitive factor did not seem strongly adverse.

Governor Mitchell indicated that he would approve. He believed that a stronger commercial bank in Bristol might generate more local business.

Governor Daane said that he would approve on the grounds that had already been cited; he placed a little more stress on the needs of the Bristol community than the Division of Examinations apparently had placed on this factor.

5/26/65

-8-

Governor Maisel stated that he would disapprove. It concerned him that in 1950 there had been 112 commercial banks in Connecticut, and at the end of 1964 only 66 remained; yet during the same period the population of Connecticut had increased by about one-third and income had more than doubled. Thus it appeared to him that the question of potential competition was significant. The other factors appeared basically neutral. These banks were strong enough to compete, and therefore it seemed to Governor Maisel that only a strong reason would justify approving a merger.

Governor Balderston commented that he would approve, largely for the reasons Governor Robertson had mentioned. He (Governor Balderston) did not believe that the banking situation in Hartford would be improved, but he did think that industrial firms in the Bristol area would get better service. Therefore there would seem to be a slight edge toward approval on the basis of service and the public interest.

Chairman Martin stated that he would approve because he thought that a stronger bank in Bristol would help to develop the economy of that city.

The application of Riverside Trust Company was thereupon approved, Governor Maisel dissenting. It was understood that an order and statement reflecting this decision would be drafted for the Board's consideration, and that a statement regarding the dissent of Governor Maisel also would be prepared.

5/26/65

-9-

Miss Hart and Messrs. Smith, Wiles, Egertson, and McClintock then withdrew from the meeting and Mr. Brill, Director, Division of Research and Statistics, entered the room.

Civil Rights Act. At the meetings of the Board on March 30 and April 1, 1965, there had been preliminary discussion, on the basis of a distributed memorandum from Mr. Hackley dated March 10, 1965, of applicability to the Federal Reserve Banks of Title VI of the Civil Rights Act of 1964. The memorandum stated that in July 1964 the Board had received from the Department of Justice a "Guide for Issuance of Regulations under Title VI of the Civil Rights Act of 1964," which indicated that "each department or agency administering any program or activity subject to Title VI shall submit its proposed regulations" to the Bureau of the Budget and the Department of Justice for review, and that "each department or agency is requested to submit a statement listing every program or activity involving direct or indirect financial assistance which it has determined to be outside the scope of Title VI, together with the reasons for that determination." By letter of July 16, 1964, the Board informed the Bureau of the Budget that prompt attention would be given to the interpretation and application of Title VI insofar as applicable to the Federal Reserve System, and that, if it was ascertained that regulations were required to be issued, they would be submitted for approval by the President in accordance with the requirements of Title VI.

The matter was referred to the Conference of Presidents, the memorandum continued, and an Ad Hoc Subcommittee of Counsel was appointed to

5/26/65

-10-

study the question. In a report of August 25, 1964, the Subcommittee concluded (1) that Title VI was inapplicable to the Reserve Banks "because the Banks are not Federal agencies empowered to extend Federal financial assistance to any program or activity by way of grant, loan or contract within the meaning of that Title," and (2) that the Reserve Banks were employers as defined in Title VII of the Act and, on July 2, 1965, would become subject to its provisions prohibiting discrimination as to employment practices. The Conference of Presidents accepted the report and concurred in its conclusions.

Mr. Hackley's March 10 memorandum stated that despite the apparently unanimous conclusion of the Conference of Presidents (and also, it was understood, the conclusion of all Reserve Bank Counsel) that Title VI did not apply to the Reserve Banks, the legal validity of that conclusion was by no means crystal clear. In support of the position that the Title was applicable it might be argued that the Banks were "Federal agencies"; that they made advances to member banks and extended other forms of financial assistance to such banks pursuant to provisions of Federal law; that the broad intent of Title VI was to prohibit racial discrimination by any persons or corporations receiving Federal financial assistance; and that the Banks therefore should be regarded as "Federal agencies" that provided "Federal financial assistance" to a "program or activity" within the meaning of the Title. In support of the position that Title VI did not apply to the Reserve Banks, it might be argued that they were not "Federal

5/26/65

-11-

agencies" in the sense in which that term was normally used; that extensions of Reserve Bank credit to member banks were designed to aid the economy generally rather than to provide Federal financial assistance to any particular individual beneficiaries; that there was at least some evidence in the legislative history of the Civil Rights Act that Title VI was not intended to apply to banks or to programs not financed with appropriated funds; and that application of the Title to Reserve Bank advances would be inconsistent with the objectives of the provisions of the Federal Reserve Act relating to discounts and advances.

After noting that there was a difference of opinion on the question within the Legal Division, Mr. Via concurring in the conclusion of Reserve Bank Counsel that Title VI was not applicable to the Reserve Banks, while Mr. Hexter held the opposite view, Mr. Hackley's memorandum stated that on balance it was his view that Title VI did not apply to the Reserve Banks. He listed three considerations in support of that view. First, he thought it questionable whether a Reserve Bank should be considered a "Federal agency" within the meaning of the Title. The fact that the law referred to each "Federal department and agency" suggested that Congress had in mind an "agency" which, like a "department," was a part of the Federal Government -- an agency whose employees were Federal employees -- rather than an instrumentality of the Government like a Reserve Bank. Second, he doubted that the operations of member banks fell within the ordinary meaning of a "program" and thought that the succeeding reference to an "activity" should be construed in the light

5/26/65

-12-

of its association with the reference to a "program." Third, the terms "Federal agency," "Federal financial assistance," and "program or activity" were not defined in the Act. However, as far as there was any legislative history that might throw light on the intent of Congress, that history suggested that Title VI was not intended to apply to the activities of banks and, to some extent though not conclusively, that it was meant to cover only Federal financial assistance provided through the use of appropriated funds. Attached to the memorandum were a draft of letter to the Bureau of the Budget that would reflect Mr. Hackley's conclusion and supporting reasoning, and a draft of letter to the Federal Reserve Bank Presidents that would transmit a copy of the letter sent to the Bureau of the Budget and would state that the Board concurred in the conclusion of the Ad Hoc Subcommittee of Counsel and the Conference of Presidents that the Reserve Banks would be subject to Title VII of the Civil Rights Act. Among other attachments were memoranda from Messrs. Hexter and Via setting forth arguments in support of their opposing views as to the applicability of Title VI to the Reserve Banks.

There had also been distributed a memorandum from Mr. Hackley dated April 6, 1965, attaching an alternative draft of letter to the Bureau of the Budget prepared in the light of the Board's preliminary discussion on April 1. The alternative would omit any reference to the question whether the Reserve Banks were "Federal agencies," as well as reference to the legislative history of the Act in support of the arguments that it was intended to apply only to financial assistance provided

5/26/65

-13-

through appropriated funds and was not intended to apply to banks. The alternative draft would be based solely on the ground that the operations of member banks are not a "program or activity" to which the Reserve Banks extend financial assistance within the purview of the Act.

At the Board's request Mr. Hackley reviewed the deliberations that had brought the matter to its present status. The legal question turned on four particular points in the language of the Civil Rights Act: whether the Federal Reserve Banks were Federal agencies for the purposes of the Act; whether they extended Federal financial assistance; whether member banks that received Federal Reserve discounts and advances were engaged in any "program or activity" within the meaning of the Act; and whether applicability of Title VI to the Reserve Banks would be inconsistent with the achievement of the objectives of the Federal Reserve Act. He summarized the arguments presented in his memorandum of March 10, 1965, and reiterated his conclusion that Title VI was not applicable to the Federal Reserve Banks and his recommendation that in a letter to the Bureau of the Budget the Board base such a conclusion solely on the ground that activities of member banks are not a program or activity within the meaning of the Civil Rights Act. Mr. Hackley brought out also that in the letter of July 16, 1964, to the Bureau of the Budget the Board had already taken the position that the Board itself was not a "Federal . . . agency which is empowered to

5/26/65

-14-

extend Federal financial assistance to any program or activity" within the purview of Title VI. The present question, therefore, related only to applicability of the Title to the Federal Reserve Banks, and if it was concluded that the Title was applicable it would be the Reserve Banks individually that would be required to issue implementing regulations. Quite apart from legal questions, however, there were delicate policy questions involved. In view of such considerations, if the Board should concur in the position taken by the Conference of Presidents that Title VI was inapplicable, Mr. Hackley suggested that consideration might be given to adding to the draft letter a paragraph indicating that the System was nevertheless wholly sympathetic with the objectives of the Civil Rights Act and that the Federal Reserve Banks would, of course, take all steps toward achievement of that objective consistent with the proper discharge of their functions.

Mr. Via then summarized the points made in his memorandum in support of his view that Title VI did not apply to the Federal Reserve Banks. Of the four points as to coverage specified in the statute, he did not find it necessary to test the first, namely, whether or not Reserve Banks were Federal departments or agencies, because if any of the other points did not apply to a particular entity, the requirement that regulations be issued did not apply to that entity. He concluded that the second point, the extension of Federal financial assistance, did not apply to the Federal Reserve Banks, on the

5/26/65

-15-

ground that they did not extend appropriated funds. Even if it should be held that loans and discounts constituted Federal financial assistance, Mr. Via believed that such assistance was not extended to any "program or activity," which was the third point of coverage. These phrases were not defined in the Civil Rights Act, nor could much help as to their meaning be found in the legislative history. However, he believed that the normal meaning of program or activity contemplated more than the business of a commercial bank; it would seem to imply a welfare benefit such as a school lunch program.

Mr. Via then cited, as had his memorandum, a number of points of legislative history that seemed to indicate Congressional intent that Title VI was not to apply to banks. He reasoned that if the legislative history contained positive statements by the framers of the Act to the effect that this Title was to be applicable to banks or to Federal Reserve Banks, it would be incumbent upon the Board to have regard for those statements; conversely, statements pointing to an intent that Title VI be inapplicable to banks or to Federal Reserve Banks should be given weight. Arguments that Title VI was intended to apply to the Federal Reserve Banks had been based on a finding that a broad remedial purpose was expressed in section 601. That section, however, had to be read in conjunction with section 602, which gave the Act effect and told Federal agencies what they must do, and in section 602 one immediately ran into the problems of definition of the terms "Federal department or agency," "Federal financial assistance,"

5/26/65

and "program or activity." Therefore, Mr. Via could not agree that section 601, when read in the light of section 602, contained any definition of a broad remedial purpose.

Mr. Hexter commented that important as the Civil Rights Act was, he did not regard it as especially complex. The keynote of Title VI was in section 601: "No person in the United States shall, on the ground of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Federal financial assistance." It was to him inescapable that the simple meaning of that passage was that the Federal Government should not lend financial assistance to activities that discriminated on account of race or color; if an activity did so discriminate, Federal agencies were to see to it, through regulations, that the Federal Government did not lend financial assistance. Federal Reserve Bank counsel had dissected this simple tenet in support of their contention that the Title was inapplicable to the Reserve Banks, saying first that the Reserve Banks were not Federal agencies; but if they were held to be so, the credit they extended was not Federal financial assistance; but if it was held to be so, it was not to aid a program or activity. It was difficult for Mr. Hexter to support these positions.

The Civil Rights Division of the Department of Justice had expressed the opinion that any lending program by a Federal agency constituted Federal financial assistance. Moreover, the Civil Rights statute itself mentioned

5/26/65

-17-

assistance in the form of loans. Nor could Mr. Hexter give weight to the argument that the Federal Reserve System made loans and discounts for the purpose of aiding the economy generally through the banking system. There was a wide spectrum of Federal activities by way of loans to various segments of the economy -- the housing industry, transportation, agriculture -- the ultimate beneficiaries of which were the country generally, yet there seemed to be no doubt that these activities constituted Federal financial assistance. Viewed from the simple premise that Congress did not intend any activity of the Federal Government to receive Federal financial assistance if that activity discriminated because of race, it seemed to Mr. Hexter that a reasonable interpretation of that purpose led to the conclusion that the Federal Reserve Banks were subject to the requirements of Title VI.

Mr. Molony distributed a suggested revision of certain parts of the alternative draft letter to the Bureau of the Budget. It would be better, in his opinion, not to include discussion of the question whether or not the Reserve Banks were Federal agencies, and he questioned the appropriateness of language that might seem to imply that ownership of Federal Reserve Bank stock by member banks carried with it a proprietorship interest. Also, he thought it would be undesirable to include in the letter a paragraph indicating sympathy with the objectives of the Civil Rights Act; if the conclusion reached was that Title VI was inapplicable to the Reserve Banks, such a statement might seem hypocritical.

5/26/65

-18-

Governor Mitchell said he did not believe that the draft letter properly described the financial relations between member banks and the Federal Reserve System, which in his opinion did not involve Federal financial assistance. If the Civil Rights Act was viewed in terms of its objectives, he could not see how discounts by Reserve Banks to member banks on the security of eligible paper could properly be regarded as Federal financial assistance.

Governor Daane, in response to an observation by Mr. Hexter that the Department of Justice had said specifically that loans by any Federal agency for any purpose were Federal financial assistance, remarked that over the years there had been efforts to trace the purpose of Reserve Bank advances, which it had not been found possible to pinpoint satisfactorily. He agreed with Governor Mitchell that the kind of money advanced through the discount window, generally collateralized by Government securities and enabling a bank to adjust its reserve position, was entirely different from a loan to provide financial aid to a borrower. He would make that point the principal ground for holding Title VI inapplicable.

Mr. Hackley commented that the Reserve Banks did make loans, and the Civil Rights Act specifically covered loans. He agreed with Governor Daane, however, that the purpose of Reserve Bank advances was different from the type of assistance contemplated by the law. That was the argument he recommended be used to support the conclusion that Title VI was inapplicable to the Reserve Banks.

5/26/65

-19-

Governor Maisel expressed objection to use of any language disclaiming that the Reserve Banks were Federal instrumentalities. He felt, however, that some weight could be given to the legislative history that Mr. Via had cited in support of a position that Title VI was inapplicable. The letter might say, in essence, that while Congress could have made the Reserve Banks subject to the requirements of the Title, the legislative history indicated that it had not so intended.

Mr. Hackley said that he had not meant to give the impression that he would place no reliance on the legislative history, only that it would not be his primary reliance.

There ensued a discussion of various facets of the legislative history, including the question whether financial assistance other than through the use of appropriated funds was contemplated as being covered. Comment was made that since it had been made clear that insurance provided by the Federal Deposit Insurance Corporation and by the Federal Savings and Loan Insurance Corporation was not considered Federal financial assistance for purposes of the Act, it might seem rather technical to hold that Federal Reserve discounts were to be so considered, especially in the absence of positive statements to that effect by the legislators.

Governor Robertson stated at this point that he found it difficult to read the statute in anything but its literal language. He believed there was no question whatever that Reserve Banks were Federal agencies, nor could it be disputed that the statute mentioned loans, or that the

5/26/65

-20-

Federal Reserve Banks did make loans. The only argument against applicability of the Title that might have some validity was that banking was not an activity to which Federal assistance was being granted, and he did not believe that was a sound contention. The reasons given by Reserve Bank Counsel in support of that contention were not convincing. It seemed to Governor Robertson that it would not be any great task for the Reserve Banks to apply the statute: they need only require that banks that came to the discount window furnish a statement that they were not discriminating because of race. He thought that for the Board to hold that the Title did not apply to the Reserve Banks was contrary to the whole purpose of the Act and required a strained construction of the law.

After further discussion during which members of the Board reiterated their previously expressed views, it was understood that a new draft of letter to the Bureau of the Budget taking the position that Title VI was not applicable to the Federal Reserve Banks but reflecting changes along lines suggested at this meeting would be submitted for the Board's consideration.

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

The Secretary was advised later that during the executive session the following actions were taken:

Standards of ethical conduct. In a statement accompanying Executive Order 11222, "Prescribing Standards of Ethical Conduct for Government Officers and Employees," President Johnson said: "One of

5/26/65

-21-

the main purposes of the executive order is to encourage individuals faced with questions involving subjective judgment to seek counsel and guidance. Thus, the Chairman of the Civil Service Commission has been instructed to work with each department and agency head to establish within his organization designated individuals who can provide the guidance and interpretation necessary to relate general principles to specific situations."

In a letter to Chairman Martin dated May 20, 1965, Chairman Macy of the Civil Service Commission stated that it was essential that the head of each department and agency designate the individual mentioned by the President as soon as possible. The role of such person would be to provide counsel, guidance, and interpretation on matters relating to the ethical conduct of officers and employees. The designated individual should be a top-ranking person with appropriate experience, preferably including legal capability.

During the executive session Howard H. Hackley, General Counsel, was designated to provide counsel, guidance, and interpretation on matters relating to the ethical conduct of officers and employees of the Board, with the understanding that advice of this designation would be sent by letter to Chairman Macy.

Foreign travel by Mr. McIntosh. The Board authorized attendance by James A. McIntosh, Technical Assistant in the Division of Bank Operations, at the Sixth SEANZA Central Banking Course, to be held in Wellington, New

5/26/65

-22-

Zealand, from September 20 to November 26, 1965, with the understanding that when details on the costs of the course were available a recommendation would be made to the Board by its staff on whether Mr. McIntosh should be authorized to travel on a per diem or an actual expense basis.

Foreign travel by Mr. Katz. The Board authorized foreign travel by Samuel I. Katz, Adviser in the Division of International Finance, to attend a meeting on the Euro-currency market to be held at the Bank for International Settlements in Basle, Switzerland, beginning Friday, July 9, 1965, and to visit the German Federal Bank.

The meeting then adjourned.

Secretary's Notes: On May 24, 1965, Governor Shepardson approved on behalf of the Board the following items:

Letter to the Presidents of all Federal Reserve Banks (attached Item No. 13) regarding the procedure for handling requests for copies of material filed by member State banks under Regulation F, Securities of Member State Banks, and by insured State nonmember banks under the corresponding regulations of the Federal Deposit Insurance Corporation.

Letter to the Federal Reserve Bank of Boston (attached Item No. 14) approving the designation of four employees as special assistant examiners.

Letter to the Federal Reserve Bank of Richmond (attached Item No. 15) approving the designation of five employees as special assistant examiners.

Letter to the Federal Reserve Bank of Kansas City (attached Item No. 16) approving the appointment of Davis Lawrence Shikles as assistant examiner.

Memorandum from the Division of Research and Statistics dated May 20, 1965, recommending that an additional economist position be established in the Banking Section of that Division.

Governor Shepardson today approved on behalf of the Board the following items:

5/26/65

-23-

Letter to the Federal Reserve Bank of Chicago (attached Item No. 17) approving the appointment of Elisabeth B. Peterson as assistant examiner.

Letter to the Federal Reserve Bank of Kansas City (attached Item No. 18) approving the appointment of Kenneth Lee Swenson as assistant examiner.

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

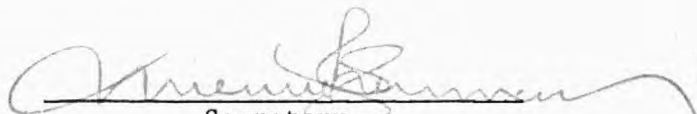
Transfer

Enid J. Halota, from the position of Secretary in the Office of the Secretary to the position of Secretary in the Division of Examinations, with an increase in basic annual salary from \$5,660 to \$6,060, effective June 1, 1965.

Acceptance of resignation

Penny Brogan, Statistical Assistant, Division of Research and Statistics, effective at the close of business May 29, 1965.

At the meeting on February 15, 1965, the Board approved the issuance of a set of directives to the staff regarding responsibilities for examining Federal Reserve Banks and exercising supervision over them, with the understanding that the directives would be issued in a form satisfactory to Governor Shepardson after modification in the light of conclusions reached during the discussion at the February 15 meeting. The directives were issued on May 26, 1965, in the form attached as Item No. 19. Copies were sent to heads of divisions of the Board's staff and also to the Federal Reserve Banks.


Secretary

1743

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
5/26/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 26, 1965



Board of Directors,
Citizens Fidelity Bank and Trust Company,
Louisville, Kentucky.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, of a branch in the Westport Road Shopping Center on Westport Road near Goose Creek Road, Jefferson County, Kentucky, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

1744

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2
5/26/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 26, 1965

Board of Directors,
Industrial State Bank of Kalamazoo,
Kalamazoo, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Industrial State Bank of Kalamazoo, Kalamazoo, Michigan, of a branch at 601 East Crosstown Parkway, Kalamazoo, Michigan, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

1745

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

Item No. 3
5/26/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 26, 1965

Board of Directors,
Wells Fargo Bank,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Wells Fargo Bank, San Francisco, California, of a branch on Main Street, Middletown, Lake County, California, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

1746

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

Item No. 4
5/26/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 26, 1965.

Morgan Guaranty International
Banking Corporation,
23 Wall Street,
New York 15, New York.

Gentlemen:

In accordance with the request and on the basis of the information furnished in your letter of May 6, 1965, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants consent for your Corporation to purchase and hold 12,000 additional shares, par value Mexican Pesos 100 each, of the capital stock of Credito Bursatil, S.A., Mexico, D.F., Mexico, at a cost of approximately US\$144,000, provided such stock is acquired within one year from the date of this letter.

The Board also approves the purchase and holding of shares of Credito Bursatil, S.A. within the terms of the above consent in excess of 10 per cent of your Corporation's capital and surplus.

The foregoing consent is given with the understanding that the foreign loans and investments of your Corporation, combined with those of Morgan Guaranty Trust Company of New York and Morgan Guaranty International Finance Corporation, including the investment now being approved, will not exceed the guidelines established under the voluntary foreign credit restraint effort now in effect.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

1747

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

Item No. 5
5/26/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 26, 1965

Board of Directors,
Midland National Bank,
Milwaukee, Wisconsin.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Midland National Bank to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective with the first biweekly reserve computation period beginning after the date of this letter.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

1748

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

Item No. 6
5/26/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 26, 1965

Board of Directors,
Northeast National Bank,
San Antonio, Texas.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of Dallas, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Northeast National Bank to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective as of the date it opens for business.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 7
5/26/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 26, 1965

The Honorable K. A. Randall, Chairman,
Federal Deposit Insurance Corporation,
Washington, D. C. 20429

Dear Mr. Randall:

Reference is made to your letter of May 5, 1965,
concerning the application of The Farmers and Merchants Bank,
Boswell, Indiana, for continuance of deposit insurance after
withdrawal from membership in the Federal Reserve System.

There have been no corrective programs urged upon
the bank, or agreed to by it, which have not been fully
consummated, and there are no such programs that the Board
would advise be incorporated as conditions of admitting the
bank to membership in the Corporation as a nonmember of the
Federal Reserve System.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

1750
Item No. 8
5/26/65

OFFICE OF THE CHAIRMAN

May 26, 1965

Mr. Phillip S. Hughes,
Assistant Director for
Legislative Reference,
Bureau of the Budget,
Washington, D. C. 20503

Dear Mr. Hughes:

This is to advise in response to your communication of May 25, 1965, that the Board recommends that the President approve the enrolled bill, H. R. 6497, "To amend the Bretton Woods Agreements Act to authorize an increase in the International Monetary Fund quota of the United States."

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

UNITED STATES OF AMERICA
BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C.

In the Matter of the Application of
DENVER U. S. BANCORPORATION, INC.,
Denver, Colorado

for approval of the acquisition of
voting shares of Weld County Bank,
Greeley, Colorado

ORDER APPROVING APPLICATION UNDER
BANK HOLDING COMPANY ACT

There has come before the Board of Governors, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842(a)(2)) and section 222.4(a)(2) of Federal Reserve Regulation Y (12 CFR 222.4(a)(2)), an application by Denver U. S. Bancorporation, Inc., Denver, Colorado, a registered bank holding company, for the Board's prior approval of the acquisition of at least 50 per cent of the voting shares of Weld County Bank, Greeley, Colorado.

As required by section 3(b) of the Act, the Board notified the State Bank Commissioner of Colorado of receipt of the application and requested his views and recommendation. The Commissioner expressed the opinion on behalf of the Colorado Banking Board and the Banking Department that the proposed acquisition "would be beneficial to the bank", and that

neither the Banking Board nor the Banking Department opposed the proposed acquisition.

Notice of receipt of the application was published in the Federal Register of February 5, 1965 (30 F.R. 1271), providing an opportunity for interested persons to submit comments and views with respect to the proposed acquisition. The time for filing such comments and views has expired, and all those received have been considered by the Board.

IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is approved, provided that the acquisition so approved shall not be consummated (a) within seven calendar days after the date of this Order or (b) later than three months after said date.

Dated at Washington, D. C., this 26th day of May, 1965.

By order of the Board of Governors.

Voting for this action: Chairman Martin, and Governors Balderston, Robertson, Shepardson, Mitchell, and Daane.

Governor Maisel did not participate in this action.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 10
5/26/65

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

APPLICATION BY DENVER U. S. BANCORPORATION, INC.,
DENVER, COLORADO, FOR APPROVAL OF ACQUISITION OF
SHARES OF WELD COUNTY BANK, GREELEY, COLORADO

STATEMENT

Denver U. S. Bancorporation, Inc. ("Applicant"), Denver, Colorado, a registered bank holding company, has filed with the Board, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 ("the Act"), an application for approval of the acquisition of at least 50 per cent of the voting shares of Weld County Bank ("Bank"), Greeley, Colorado.

Views and recommendation of supervisory authority. - As required by section 3(b) of the Act, notice of receipt of the application was given to, and views and recommendation requested of, the State Bank Commissioner. The Commissioner advised that neither the Banking Board nor the Banking Department opposed approval of the application.

Statutory factors. - Section 3(c) of the Act requires the Board to take into consideration the following factors in acting on this application: (1) the financial history and condition of the holding company and the banks concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the communities and the area concerned; and (5) whether

the effect of the proposed acquisition would be to expand the size or extent of the bank holding company system beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

Financial history, condition, prospects, and management of Applicant and Bank. - Applicant became a bank holding company on February 5, 1964, and its financial history, albeit short, is satisfactory. Applicant's holding company system is composed of three banks, one located in Denver, and two in nearby suburban communities. These banking subsidiaries held combined deposits of \$366 million at June 30, 1964.^{1/} Based on the satisfactory financial condition of its subsidiary banks, Applicant's financial condition is satisfactory.

Applicant's prospects depend largely upon the prospects of its subsidiary banks. Inasmuch as Applicant's three subsidiary banks reflect sound growth and earnings and favorable prospects, the Board concludes that Applicant's prospects are also favorable.

The managements of Applicant and its subsidiary banks are considered experienced and well qualified.

Bank was organized some 75 years ago and has present deposits of about \$17 million. Its deposit growth in recent years compares favorably with its two larger local competitors. Despite Bank's favorable deposit growth, the Colorado Bank Commissioner

^{1/} Unless otherwise indicated, all banking data noted are as of this date.

considers Bank's financial condition and prospects as somewhat unfavorable in view of a need found by the Commissioner for additional capital and somewhat stronger management direction in certain of the Bank's operations. The Commissioner concluded that in these two respects, the acquisition of Bank by Applicant "would be beneficial to the bank."

While the Board, on the basis of the record before it, finds that Bank's present financial condition, prospects, and management are fairly satisfactory, the Board finds reasonable the concern expressed by Applicant regarding the management problem that could arise in Bank in the event of the death or resignation of Bank's chief executive officer, and agrees that this problem is accentuated by the potential retirement of, and less active management participation by, certain of Bank's other executive officers, particularly in the light of the anticipated continued growth of Bank. While the Board is of the opinion that Applicant's proposed acquisition of Bank is but one of the solutions to Bank's capital need and management succession problems, the Board finds that Applicant's ownership of Bank offers sufficiently reasonable assurance of more immediate and certain solutions to these problems as to constitute a consideration favorable to approval of the application.

Convenience, needs, and welfare of the communities and the area concerned. - Bank is located in downtown Greeley, about 58 miles north of the City of Denver in the west-central area of Weld County. Greeley is the center for large farming, ranching,

and feeding enterprises, and the location of many retail stores and distributors of farm machinery, automobiles and trucks, appliances, and other kinds of machinery and equipment. Greeley has an estimated population of 30,000. Bank's primary service area,^{2/} with an estimated population of 32,000, encompasses Greeley and four rural route zones extending a maximum of nine miles from downtown Greeley. In addition to Bank, four other banks are located in the primary service area. According to Applicant, three of these four banks are affiliated.

The Board's earlier finding regarding the beneficial effect of Applicant's ownership of Bank in respect to providing capital funds and rendering assistance as to management succession in Bank, bears also upon the convenience and needs of the area concerned.

Applicant states that it can assist Bank in such areas as advertising, computer services, auditing, advice regarding Bank's bond portfolio, trust investments, employee benefits, and in respect to such other banking services as to which a need for assistance may arise. On the basis of the record present, the Board is satisfied that Applicant's rendition of the assistance it proposes in respect to services to be available through Bank would prove beneficial to the residents and businesses of Bank's primary service area. This result lends weight toward approval of the application; however, the affirmative weight is somewhat lessened by the absence in

^{2/} The area from which an estimated 75 per cent of Bank's IPC deposits originate.

the record of evidence indicating that any of the major banking needs of the area concerned are presently going unserved. On balance, it is the Board's conclusion that the resulting benefit to the convenience and general welfare of the area likely to result from consummation of Applicant's proposal weighs somewhat in favor of approval.

Effect of proposed acquisition on adequate and sound banking, public interest, and banking competition. - The aggregate deposits of \$366 million held by Applicant's three banks would, by the addition of Bank to Applicant's system, be increased to \$383 million, an increase from 14.3 to 15 per cent in Applicant's control of the deposits of all insured banks in Colorado. Applicant and the other two registered bank holding companies with subsidiary banks in Colorado presently control 21.4 per cent of the deposits of all insured banks in the State. This concentration would be increased to 22 per cent through Applicant's acquisition of Bank. The acquisition would give Applicant control of 7 per cent of the 14 insured banks in Weld County, 18 per cent (\$17 million) of the deposits of those banks, and would result in Bank being the only holding company subsidiary in Weld County.

At the time of the Board's approval in November 1963 of Applicant's formation, the Board concluded that while a sizable portion of the total deposits and loans of all banks in the State of Colorado is concentrated in a relatively few banks, the largest five of which are in Denver and include Applicant's subsidiary, Denver U. S. National Bank, it did not appear that any single banking institution was dominant

in the Denver area or in the State as a whole. Then, as now, Denver U. S. National Bank was the second largest bank in the State. (With the acquisition of control of Bank's \$17 million of deposits, Applicant's system would control deposits aggregating \$4 million less than those of the State's largest bank.) The Board concluded that there was no reasonable basis to believe that formation of Applicant's system, including Denver U. S. National Bank, would be inimical to the proven vigor of banking competition in the areas concerned.

The record before the Board in this case requires no different conclusion regarding the probable impact on banking competition of existing and proposed concentrations of banking resources. Viewed on a State-wide basis or when restricted to Weld County, the minimal increase in concentrations of banking resources that would result from consummation of the proposed acquisition does not represent a consideration adverse to approval of the proposal.

Considering next the extent to which Applicant's ownership of Bank would eliminate existing competition or foreclose future competition between Bank and Applicant's subsidiaries, for the reasons hereafter mentioned, the Board concludes that these considerations present no bar to approval of the application. Bank is located approximately 58 miles from Applicant's nearest and largest subsidiary, Denver U. S. National Bank. The remaining two subsidiaries of Applicant, First Bank of Aurora and Arapahoe County Bank, are 65 and 72 miles, respectively, from Bank. None of Applicant's subsidiaries draws a significant amount of its deposits or loans from Bank's

primary service area and only to a minor extent do Bank's loans and deposits originate in Applicant's subsidiaries' primary service areas. Accordingly, the amount of existing competition between Bank and Applicant's subsidiaries that would be eliminated following consummation of Applicant's proposal is minimal. Nor is there reason to believe that future competition between Bank and Applicant's subsidiaries would be measurably greater than at present, particularly in respect to Applicant's two smaller subsidiaries because of their size and the relatively great distance separating them from Bank.

Bank now competes with the following banks located in the City of Greeley: (1) Greeley National Bank, with deposits of \$28 million, (2) the latter bank's two affiliates, with combined deposits of \$3 million, and (3) First National Bank, with deposits of \$26 million. Bank also competes with other banks located from 5 to 26 miles from Greeley, within Weld County, having deposits varying from \$360,000 to \$4 million. In view of the fact that Bank's two principal Greeley competitors each has deposits of some \$10 million more than Bank, and the fact that its two smaller Greeley competitors are affiliated with one of the larger Greeley banks, and since no subsidiary of Applicant competes to any significant extent in the area concerned, the Board concludes that consummation of the proposed acquisition would not significantly alter the present competitive picture in the area concerned.

The Board concludes that the foregoing considerations warrant a finding that the acquisition proposed would not result

in an expansion of the size or extent of Applicant's system inconsistent with adequate and sound banking, the public interest, or the preservation of banking competition.

On the basis of all the relevant facts as contained in the record before the Board, and in the light of the factors set forth in section 3(c) of the Act, it is the Board's judgment that the proposed transaction would be consistent with the public interest, and that the application should, therefore, be approved.

May 26, 1965.

5/26/65

CONCURRING STATEMENT OF GOVERNOR ROBERTSON

In November 1963 I dissented from the Board's majority action in approving Applicant's formation for the reason, among others, that the Board's action constituted an open invitation to Applicant to seek further expansion of its system within Colorado, a State wherein a major portion of the total banking resources was controlled by a few large institutions. Further acquisition of banks by this holding company could be foreseen then. I have voted for approval of Applicant's ownership and operation of the Weld County Bank because of the assertions of the Colorado Banking Board and the Banking Department with respect to their conclusion that consummation of this proposal would be beneficial to the Weld County Bank and eliminate some of its existing problems.

May 26, 1965.

1762

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

Item No. 12
5/26/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 26, 1965.

Mr. Karl R. Bopp, Chairman,
Conference of Presidents,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania. 19101.

Dear Mr. Bopp:

With the Board's letter of March 17, 1965, there was furnished a proposal by President Scanlon concerning the continued availability of Federal Reserve notes in denominations over \$100. While comments were subsequently submitted by the individual Banks in regard to this matter, there were some differences of opinion expressed in these comments. Accordingly, the Board believes it would be desirable to have the topic placed on the agenda for the June 14, 1965, meeting of the Conference of Presidents. In particular, the Board would like to have the views of the Conference with respect to the possible desirability of an arrangement under which Reserve Banks wanting such bills, and not having any, would purchase them from other Banks with a large supply.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

cc: Mr. Lawrence C. Murdoch, Jr.,
Secretary, Conference of Presidents.

1763

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 13
5/26/65

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 25, 1965.



Dear Sir:

Questions have been raised by several Reserve Banks regarding the handling of requests for copies of registration statements and other material filed by commercial banks in compliance with provisions of the Board's Regulation F, "Securities of Member State Banks." While it is not yet possible to estimate accurately the volume of requests for copies that may be expected, it seems desirable to develop a tentative procedure for handling requests of this type throughout the System.

As you know, copies of the material filed by member State banks under Regulation F and by insured State nonmember banks (under corresponding regulations of the Federal Deposit Insurance Corporation) are available for public inspection at the FDIC offices in Washington. The staff of the Corporation has indicated a willingness to prepare without charge a xerox copy of any Regulation F material filed by a member State bank or an insured nonmember bank that may be requested at the Corporation or at the Board.

For the sake of uniformity, it is suggested that, until further notice, the Federal Reserve Banks follow a similar procedure in complying with reasonable requests for copies of Regulation F material filed by member banks and by insured nonmember banks. The Board will appreciate being advised from time to time regarding the volume of requests received at the Reserve Banks.

Very truly yours,

Merritt Sherman,
Secretary.

1764

Item No. 14
5/26/65

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 24, 1965

Mr. Luther M. Hoyle, Jr., Vice President,
Federal Reserve Bank of Boston,
Boston, Massachusetts. 02106

Dear Mr. Hoyle:

In accordance with the request contained in
your letter of May 13, 1965, the Board approves the
designation of each of the following employees as a
special assistant examiner for the Federal Reserve Bank
of Boston:

Ronald Bacon
Joseph E. Brown, Jr.
Ronald A. Burnett
James T. Timberlake

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

1765

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

Item No. 15
5/26/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 24, 1965

Mr. John L. Nosker, Vice President,
Federal Reserve Bank of Richmond,
Richmond, Virginia. 23213

Dear Mr. Nosker:

In accordance with the request contained in
your letter of May 18, 1965, the Board approves the
designation of each of the following employees as a
special assistant examiner for the Federal Reserve Bank
of Richmond:

H. Christian Breschel
Charles T. Poole
Robert L. Rapp
Melvin B. Turner
T. Henry Wilkinson

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

Item No. 16
5/26/65

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 24, 1965

Mr. George D. Royer, Jr., Vice President,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri. 64106

Dear Mr. Royer:

In accordance with the request contained in your letter of May 17, 1965, the Board approves the appointment of Davis Lawrence Shikles as an assistant examiner for the Federal Reserve Bank of Kansas City. Please advise the salary rate and the effective date of the appointment.

Very truly yours,
(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

1767

Item No. 17
5/26/65



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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 27, 1965

Mr. Leland M. Ross, Vice President,
Federal Reserve Bank of Chicago,
Chicago, Illinois. 60690

Dear Mr. Ross:

In accordance with the request contained in your letter of May 21, 1965, the Board approves the appointment of Mrs. Elisabeth B. Peterson as an assistant examiner for the Federal Reserve Bank of Chicago. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

1768

Item No. 18
5/26/65

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 27, 1965

Mr. George D. Royer, Jr., Vice President,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri. 64106

Dear Mr. Royer:

In accordance with the request contained in your letter of May 20, 1965, the Board approves the appointment of Kenneth Lee Swenson as an assistant examiner for the Federal Reserve Bank of Kansas City. Please advise the salary rate and the effective date of the appointment.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

May 26, 1965.

DIRECTIVES FROM BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
TO ITS STAFF REGARDING RESPONSIBILITIES FOR EXAMINING
FEDERAL RESERVE BANKS AND EXERCISING SUPERVISION OVER THEM

I. Statutory Responsibilities

The Board of Governors of the Federal Reserve System is authorized "to exercise general supervision over . . . Federal Reserve Banks" (Federal Reserve Act, 11(j)), "to examine at its discretion the accounts, books and affairs of each Federal Reserve Bank . . . and to require such statements and reports as it may deem necessary." (Federal Reserve Act, 11(a)) The Board "shall, at least once each year, order an examination of each Federal Reserve Bank." (Federal Reserve Act, 21)

There also are statutory provisions relating to special supervision by the Board in particular areas or to functions the Reserve Banks perform essentially as field representatives of the Board. Some examples are: building projects of Reserve Banks (Federal Reserve Act, 10); issuance of Federal Reserve notes by Reserve Banks and operation of interdistrict settlement fund (Federal Reserve Act, 16); compensation to Reserve Bank directors, officers and employees (Federal Reserve Act, 4); relationships and transactions of Reserve Banks with foreign banks or bankers (Federal Reserve Act, 14(g)); supervision of commercial banks and related organizations. (Federal Reserve Act and related statutes)

II. General Assignments

The Board considers the work of its several Divisions as a coordinated activity in assisting the Board to discharge its responsibilities in examining the Federal Reserve Banks and in exercising supervision over them. This requires cooperation among the Divisions to the end that

- 2 -

(1) the work of one Division does not unnecessarily duplicate or conflict with that of other Divisions, and (2) information coming to the attention of one Division, of significant value to other Divisions, is brought to their attention. Therefore, any such information coming to the attention of one Division having to do with the responsibilities of another Division should be reported as promptly as the situation may require to the other Division. If the matter does not involve responsibilities of the first Division, that Division should not take it up directly with the Reserve Bank.

III. Division Assignments

Responsibilities of the various Divisions for advising and assisting the Board with respect to the supervision of the Reserve Banks are as follows:

A. Office of the Secretary has responsibility to -

Clear and conduct official correspondence on behalf of the Board and serve generally as the administrative office of the Board in its relations with the Federal Reserve Banks.

B. Division of Examinations has responsibility to -

1. Conduct examinations of the Federal Reserve Banks and report thereon to the Board.

a. The examination of a Federal Reserve Bank by the Division of Examinations shall be so conducted as to enable the Division to develop an informed opinion as to the financial condition of the Reserve Bank as of the date of the examination and the fair presentation of its income and expenses for the intervening period since the previous

examination.

B. Division of Examinations (continued)

b. The examination should be made in conformity with generally accepted auditing standards, and accordingly should include such tests of the accounting records and such other auditing procedures as the Division considers necessary in the circumstances.

c. An examination of this kind would require careful review of the internal controls and audit procedures of the Reserve Bank, and with due regard to the effectiveness thereof, the application of examination procedures by the Division that would avoid excess work and undue duplication of effective and acceptable verifications made through the Reserve Bank's own audit processes. Such an examination would cover, among other things, (i) verification (using appropriate testing procedures where applicable) of assets and liabilities, including liabilities as custodian, (ii) proper discharge by the Reserve Bank of its responsibilities as Fiscal Agent of the United States, (iii) conformance in the protection function of the Reserve Bank with adopted safety provisions and standards, and (iv) compliance by the management of the Reserve Bank with provisions of law, regulations of the Board of Governors, and other requirements affecting the Reserve Bank's finances and accounting, including financial relations with member banks.

d. The Examination procedures referred to above should be appropriately extended whenever this should be necessary to meet the Board's need for additional examination assurance with respect to certain classes of transactions or other matters, such as the examination of

B. Division of Examinations (continued)

additional disbursement vouchers where this is considered necessary to provide the assurance required that a Reserve Bank's expenditures conform to Board policy.

e. In addition, the Division should investigate or review other related matters the Board may direct or authorize it to cover, such as the development of information and opinions that would assist the Board in making an appraisal of management. Between annual examinations the Division should review, and bring to the attention of the Board, as appropriate, information regarding conformance of Reserve Bank lending to the principles of Regulation A.

2. Promote most desirable internal audit policies and practices by the Reserve Banks and keep informed on Reserve Bank activities as treated in reports of audits by internal audit departments of Reserve Banks.

a. Review the audit function at each annual examination of the Reserve Banks, supplementing such review by suitable observations of the conduct of internal audits.

b. Review reports of internal audits.

c. Review, in cooperation with Division of Bank Operations, budget reports of internal audit departments.

d. Work with (i) the Conference of Chairmen and Deputy Chairmen of the Federal Reserve Banks in regard to the responsibility of Boards of Directors for the audit function, and (ii) the Conference of General Auditors of the Federal Reserve Banks and the Standing Committee thereof.

B. Division of Examinations (continued)

3. Advise and assist the Board with respect to activities of the Reserve Banks as the Board's field representatives in implementation of the Board's statutory responsibilities and corresponding policies for supervising commercial banks and related organizations.

a. Promote most desirable policies and practices by the Reserve Banks in (i) examinations, and follow-up thereof, of State member banks, bank holding companies, and foreign banking or financing corporations; (ii) maintaining familiarity with general condition of national banks; (iii) processing of various applications such as for branches, mergers, and holding company expansion; and (iv) general bank supervision, including prevention and correction of unsafe or unsound banking practices or conditions.

b. Review reports of examinations made by Reserve Banks and measures taken by Reserve Banks to obtain needed corrections.

c. Develop improvements in form of reports of examination.

d. Review, in cooperation with Division of Bank Operations, budget reports of bank examination departments.

e. Process proposed appointments of examiners at the Reserve Banks for action by the Board; assist Reserve Banks in training of examiners through System and/or interagency training programs.

C. Division of Bank Operations has responsibility to -

1. Advise the Board with respect to, and otherwise promote, the effectiveness of those operations of the Reserve Banks as to which such responsibility has not been specifically or implicitly assigned to other Divisions of the Board.

C. Division of Bank Operations (continued)

2. Maintain a cost accounting and reporting system that will permit significant inter-Bank comparisons as well as intra-Bank comparisons on a retrospective basis.
3. Make operational surveys at the Reserve Banks of sufficient scope and depth to enable the Division to develop and report to the Board an informed opinion with regard to the quality and effectiveness of the procedures and personnel employed in the activities concerned, and make suggestions for improvement where appropriate.
4. Review, in cooperation with the Division of Examinations where appropriate, the operational efficiency and economy of the protection function within adopted safety provisions and standards.
5. Analyze and summarize, in cooperation with other Divisions of the Board where appropriate, budget and expense reports and any other material that may bear upon the effectiveness of Reserve Bank operations for the purpose of focusing appropriate attention on changes in cost trends and other significant developments.
6. Act as liaison where operating matters are concerned between the Board and Committees of the Conference of Presidents of the Federal Reserve Banks and between the Board and Government departments and agencies.
7. Develop the annual printing order for Federal Reserve notes and arrange for the distribution and shipment of Treasury currency and Federal Reserve notes.
8. Maintain the interdistrict settlement fund and process transfers for the Treasurer's General Account and other transactions in the gold certificate fund apart from the daily interdistrict settlement.

C. Division of Bank Operations (continued)

9. Maintain the Accounting Manual and formulate or revise Accounting Manual instructions, consulting where appropriate with the Subcommittee on Accounting of the Conference of Presidents of the Federal Reserve Banks.

10. Review and summarize for Board action Reserve Bank building proposals, consulting where appropriate with representatives of the Reserve Banks and the Board's consulting architect.

D. Division of Personnel Administration has responsibility to -

1. Review, through periodic visits, the personnel programs of the Reserve Banks to evaluate personnel operations, exchange ideas, and promote better mutual understanding.

2. Analyze, through origination of special studies or otherwise, revisions of official salaries and structures, and recommend action by the Board.

3. Analyze all changes in employee salary structures to determine that they are fairly administered and properly maintained, and that sound principles of salary administration are followed; recommend Board approval or disapproval of the proposed ranges.

4. Review new, or changing, fringe benefits, particularly life insurance, retirement, hospitalization, and medical insurance programs submitted by the Reserve Banks for approval.

5. Review appointments of Federal Reserve Agent's Assistants, Alternates, and Representatives proposed by the Federal Reserve Agent (Chairman of the Board of Directors) at each Reserve Bank, and recommend action by the Board of Governors.

D. Division of Personnel Administration (continued)

6. Serve as a clearing house for the exchange of personnel ideas and experience to promote rapid dissemination of procedural improvements, changes in personnel philosophy, etc.

7. Perform staff functions in connection with other personnel activities, as follows:

a. Review, in cooperation with the Division of Bank Operations, budget reports of Personnel Departments.

b. Maintain biographical sketches, photographs, and position descriptions of Reserve Bank officers.

c. On behalf of the Chairman of the Board of Governors, grant security clearances.

d. Prepare statistical reports of personnel data.

e. Handle miscellaneous Board supervisory responsibilities with respect to: (i) Employee loan plans; (ii) Uniform treatment of employees called for military service; (iii) Service of Reserve Bank employees with Government departments; and (iv) Outside business and teaching activities.

E. Division of Research and Statistics has responsibility to -

1. Advise the Board of the scope, quality, and effectiveness of the research programs of the Reserve Banks, including review, in cooperation with Division of Bank Operations, of research department budget reports.

2. Advise the Board as to the qualifications and adequacy of number of research personnel at the Reserve Banks.

E. Division of Research and Statistics (continued)

3. Review articles for publication in the monthly reviews of Reserve Banks and other important manuscripts prepared by Reserve Bank research personnel, and advise the Banks as to accuracy of fact and conformance with System policy.

4. Advise the Board, after consultation with Reserve Bank research personnel, as to what statistical data should be collected on a System-wide basis and on the progress of such statistical programs.

5. Coordinate System-wide research and data collecting activities with a view to avoiding duplication (except where it serves a useful purpose) and to employing the facilities and personnel of each Bank and of the Board to the greatest advantage.

6. Exercise leadership within the System in the delineating of problems whose solutions will be helpful to formulation and execution of monetary policy, in the development of new research methodology and research programs that will help to solve these problems, in the recruitment of qualified research personnel, and in communication of research results to the academic and general public

F. Division of International Finance has responsibility to -

1. Advise and assist the Board with respect to the Board's responsibility to:

a. Exercise special supervision over the relationships and transactions entered into by any Reserve Bank, and especially by the Federal Reserve Bank of New York, with any foreign bank or banker,

F. Division of International Finance (continued)

b. Obtain reports on conferences and negotiations and on understandings or agreements arrived at or transactions agreed upon between any Reserve Bank and any foreign bank or banker.

2. Review, in cooperation with Division of Research and Statistics, articles for publication in the monthly reviews of Reserve Banks and other important manuscripts prepared by Reserve Bank personnel, in the field of international economics and finance.

3. Advise the Board, after consultation with Reserve Bank research personnel, as to statistical data in the field of international economics and finance to be collected on a System-wide basis and on the progress of such statistical programs.

4. Advise the Board on Reserve Bank technical assistance to foreign countries.

G. Division of Data Processing has responsibility to -

1. Implement and supervise the collection of economic data in the financial area; review and edit current data from Reserve Banks; establish uniform procedures for collection of data in the interest of high-quality financial data.

2. Develop and maintain data records of key financial series on an individual firm basis and develop information retrieval programs for joint use of research personnel at Reserve Banks and Board.

3. Provide professional specialists at the Reserve Banks with technical support, consultation, and training on:

G. Division of Data Processing (continued)

- a. The application of electronic computer techniques to data processing and economic research.
- b. Programming systems.
- c. Sampling.
- d. Other types of mathematically oriented functions.
4. Foster continuing education in computer technology and promote the sharing of programs among the Reserve Banks and Board.
5. Coordinate the "calls" for quarterly reports of condition from State member banks; review and standardize procedures for the decentralized editing and keypunching of State member and national bank reports and provide centralized processing therefor.
6. Coordinate and supervise the collection of annual reports of income and dividends of State member banks; review and standardize procedures for the decentralized editing and keypunching of State member and national bank reports and provide centralized processing therefor.
7. Provide data on selective basis to Reserve Banks to fill outside (academic) requests; advise on confidentiality and release of data.
8. Provide consultation and foster continuing improvement in the use of modern graphic design for the communication of research and statistical analyses.

H. Legal Division has responsibility to -

1. Promote, to the extent feasible, uniform approach by Reserve Bank counsel to legal questions arising in connection with Reserve Bank functions, including questions of interpretation of law and Board regulations.

H. Legal Division (continued)

2. Process, and make recommendations with respect to, requests from the Reserve Banks for Board approval of the employment of outside counsel in particular cases.
3. Review reports regarding litigation involving the Reserve Banks, as contained in examination reports and special reports by Reserve Bank counsel.
4. Review the adequacy of arrangements to avoid conflicts of interest or possible misuse of confidential information on the part of Reserve Bank directors and develop such Board statements or instructions on this subject as may be desirable.
5. Solicit assistance from Reserve Bank counsel in the preparation of compilations of State laws relating to various subjects.
6. Keep Reserve Bank counsel informed with respect to litigation involving the Board and other legal matters of general System interest.

I. Office of Defense Planning has responsibility to -

1. Provide Reserve Banks with information, including changes in National Plans and in vulnerability studies, needed by them to keep their emergency plans current and to improve their preparedness.
2. Review and evaluate the emergency plans, circulars, and preparedness measures of Reserve Banks.
3. Review for control purposes requests from Reserve Banks for security clearances.
4. Assist Reserve Banks with their preparedness programs by suggesting improvements where indicated, and by representing the views of Reserve

I. Office of Defense Planning (continued)

Banks in the interagency considerations of proposed emergency documents affecting Reserve Bank operations.

5. Maintain liaison with Reserve Banks through the Committee on Emergency Operations of the Presidents' Conference, and its Subcommittees, emergency planning officers, and Reserve Banks' representatives assigned to the Board's Liaison Office.

6. Advise the Board on the state of Reserve Bank preparedness and prepare for the Board's consideration reports on Reserve Bank preparedness as a part of the Board's semiannual report to the Office of Emergency Planning and its Annual Report to the Joint Committee on Defense Production, Congress of the United States.

J. Assistant to the Board has responsibility to -

1. Review the scope of bank relations and public information activities of the Reserve Banks as reflected in their budget reports, in meetings of related System committees, in Reserve Bank publications, and in other information supplied by the Reserve Banks.

K. Division of Administrative Services has responsibility to -

1. Serve as Board representative on Subcommittee of the Conference of Presidents of the Federal Reserve Banks, charged with operation of the Federal Reserve Leased Wire System.

2. Maintain and contract for the Federal Reserve Leased Wire System.

3. Serve as liaison representative for communications between the General Services Administration and the Federal Reserve System.