

Minutes for June 30, 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

M

Gov. Robertson

R

Gov. Balderston

CCB

Gov. Shepardson

SS

Gov. Mitchell

MM

Gov. Daane

DD

Gov. Maisel

DM

Minutes of the Board of Governors of the Federal Reserve System
on Wednesday, June 30, 1965. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Robertson
Mr. Shepardson
Mr. Daane
Mr. Maisel

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Noyes, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank
Operations
Mr. Solomon, Director, Division of Examinations
Mr. Sammons, Adviser, Division of International
Finance
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Spencer, General Assistant, Office of the
Secretary
Messrs. Egertson and McClintock, Supervisory
Review Examiners, Division of Examinations
Mr. Goodfellow, Review Examiner, Division of
Examinations

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

	<u>Item No.</u>
Letter to The Farmers and Citizens Bank, Trotwood, Ohio, approving the establishment of a branch in Madison Township.	1
Letter to Philadelphia International Investment Corporation, Philadelphia, Pennsylvania, granting its request for permission to acquire shares of Arbuthnot Latham & Co., Limited, London, England.	2

Reports on competitive factors. There had been distributed
drafts of reports to the Federal Deposit Insurance Corporation on the

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competitive factors involved in (1) the proposed acquisition of assets and assumption of deposit liabilities of Citizens Savings Bank, Denver, Colorado, by The Colorado State Bank of Denver, Denver, Colorado, and (2) the proposed merger of Manufacturers Bank, Los Angeles, California, with Guardian Bank, Hollywood, California, under the charter and title of the former.

The reports were approved unanimously for transmittal to the Corporation, the conclusions therein being stated as follows:

Denver

The acquisition of assets and assumption of liability to pay deposits made in Citizens Savings Bank, Denver, Colorado, by The Colorado State Bank of Denver, Denver, Colorado, would have no significantly adverse effect on competition.

Los Angeles

The proposed merger of Manufactures Bank and Guardian Bank involves two of the smaller banks operating in the Los Angeles metropolitan area. The two banks do not compete with each other. The effect of the proposed merger on competition would not be adverse.

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

Statement on H. R. 7601. There had been distributed a draft of statement to be made by Chairman Martin before the House Banking and Currency Committee on July 6, 1965, concerning H. R. 7601, a bill introduced by Congressman Patman that would require the 12 Federal Reserve Banks to transfer to the Secretary of the Treasury interest-bearing obligations

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(including discounted obligations) of the United States in the aggregate principal amount of \$30 billion. The Secretary would determine how much of each issue was to be transferred (and, for discounted issues, at what value), and the Board of Governors would decide how much of the total was to come from each Reserve Bank. The obligations transferred were to be canceled and retired, and each Reserve Bank would be relieved of its liability upon an amount of its Federal Reserve notes equal to the valuation at which the obligations transferred by it were carried on its books. The Secretary of the Treasury would then transfer an equal amount, on the books of the Treasury, from contingent liability on Federal Reserve notes to direct currency liability.

The draft statement referred first to the provisions in section 16 of the Federal Reserve Act authorizing the issuance of Federal Reserve notes and specifying collateral and gold reserve requirements. While H. R. 7601 would make no specific change in those provisions, it would provide for cancellation of the Reserve Banks' liability on \$30 billion of Federal Reserve notes. Thus, it would appear that of the approximately \$35 billion of outstanding notes, about one-seventh would be secured and six-sevenths would not. Further, enactment of H. R. 7601 would, in effect, be equivalent to an increase in the debt ceiling in the amount of \$30 billion, representing the securities canceled and retired. Accordingly, the bill would alter decisions recently made by the Congress and the President with respect both to the debt limit and the backing for currency.

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The draft statement contained an expression of personal judgment by Chairman Martin that there were positive advantages in the gold reserve requirement and a belief that the provisions of existing law with regard to the issuance and collateralization of currency were well designed to avoid misunderstanding and distrust. The collateral requirement served to keep the function of maintaining the supply of currency required for the needs of commerce, industry, and agriculture separate from the function of financing Federal Government deficits. It was one element in a framework of safeguards designed to assure people using and holding dollars that the value of those dollars would not be depreciated by the creation of additional money to finance Government deficits, which must instead be financed through borrowing by the Treasury in the market.

The proposed statement went on to point out why the legislation in question would not save anything for the taxpayers. In conclusion, it expressed the judgment that the best to be hoped for from the bill was that it might not do any harm. Finally, it contained a recommendation against enactment of the bill, this recommendation being made on behalf of the Board of Governors.

In discussion, Governor Maisel stated that personally he would not subscribe to opposing the bill on the ground that either the gold reserve requirement or the debt limit was desirable. A technical statement regarding the effects of enactment of H. R. 7601 in relation

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to existing legislation was warranted, and he did not favor enactment of the bill, but he would want to base his opposition on other grounds. At the same time, he recognized that this was a statement to be presented by the Chairman, who could incorporate in it such personal views as he desired.

The staff commented that the statement had been fashioned principally as an expression of the Chairman's views, although the concluding paragraph would take a position on behalf of the Board against enactment of the bill.

After a comment by Chairman Martin that in any event the views of the other members of the Board were helpful in preparation of the statement, Governor Daane observed that the tenor of the portion of the statement dealing with the gold cover was consistent with the position that Chairman Martin had taken when testifying on occasions in the past. He went on to say, however, that his own views were somewhat like those of Governor Maisel and that in particular he would not want to bless the debt ceiling.

At the request of the Board, there followed an explanation by the staff of the apparent effect of the bill in relation to the debt limit, the essence being that it would remove the amount of \$30 billion from coverage under the debt ceiling.

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Reference was made to a part of the draft statement that could be interpreted as lending endorsement to the debt ceiling, and it was indicated that some change in phraseology would be attempted.

Governor Robertson then suggested deletion of several paragraphs of the draft with a view, as he put it, of focusing attention on the core of the problem, which was that enactment of the bill would not accomplish any useful purpose. However, Governor Daane felt it would be important to retain the part of the draft which brought out that passage of the proposed legislation would open the door to the possibility of financing Government deficits through the creation of money. For this reason, he believed that the concluding portion of the statement should come out more forcefully against the bill, enactment of which could lead to serious damage to the country's financial position.

Question was raised whether material should be incorporated in the statement concerning the effect of enactment of the bill on the income needs of the Federal Reserve, but there was general agreement with a view expressed by the Chairman that it would be undesirable to get into that aspect of the matter. Comment was made, in this connection, that the bill seemed unlikely of passage.

Question also was raised whether all of the members of the Board favored concluding the statement with an expression of opposition to the bill on behalf of the Board, and the members replied in the affirmative.

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At the end of the discussion it was understood that the statement would be redrafted in the light of the comments and suggestions made at this meeting and that the statement would be presented in a final form satisfactory to Chairman Martin.

Mr. Sammons then withdrew from the meeting.

Coordinating Committee on Bank Regulation. There had been distributed to the members of the Board copies of a letter from Secretary of the Treasury Fowler to Chairman Martin dated June 24, 1965, regarding the proposed establishment of a Coordinating Committee on Bank Regulation.

The letter recalled that on March 3, 1964, in response to the directive contained in a letter from the President dated March 2, 1964, former Secretary Dillon had established a procedure for exchange of information among the Federal bank regulatory agencies. This exchange was to apply to any rule, regulation, or policy of any one agency that might conflict with an existing rule, regulation, or policy of any of the other agencies. Ten working days were to be allowed for comment before any change was instituted, and while there was no requirement that these comments be accepted, the arrangement indicated that comments received should be carefully considered and accommodated as practicable.

Secretary Fowler now proposed an elaboration of the earlier arrangement, and extension of the new plan to cover the Federal Home

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Loan Bank Board. After citing that a weakness in the earlier procedure was the lack of direct discussions among the affected agencies, he proposed the establishment of a Coordinating Committee on Bank Regulation, to be composed of the Chairman of the Board of Governors of the Federal Reserve System or a designated Governor thereof, the Comptroller of the Currency, the Chairman of the Federal Deposit Insurance Corporation, and the Chairman of the Federal Home Loan Bank Board. The Chairmanship of the Committee would rotate quarterly among the members, and the members would meet at least quarterly and additionally at the call of any member.

For each meeting of the Coordinating Committee, there would be a formal agenda comprising those matters requested for discussion by the individual members. The Secretary of the Treasury would have the authority to designate an observer or observers to attend the meetings. Where, with respect to any matter, the Committee was unable to reach an agreement, this fact, together with a summary of the opposing views, would be reported by the Committee Chairman to the Secretary of the Treasury.

The letter stated that the proposal, in its broad outlines, conformed closely to a recommendation of the President's Committee on Financial Institutions. Secretary Fowler felt that it should provide an effective instrument for the exchange of views among the banking agencies, and for such accommodation of differences as was feasible

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considering the divergent scope of authority and responsibility of the participating agencies. He offered assurance that he was conscious of and would fully respect the sentence in the President's letter of March 2, 1964, reading: "To the extent that each of these agencies has been granted authority directly by the Congress, each enjoys considerable independence of action in this field."

At this meeting there was distributed a draft of possible reply, the central point of which was that the Board would be prepared to participate in the procedure proposed by Secretary Fowler. The staff draft contained several optional paragraphs of understandings and reservations, these having been included with realization that the Board might or might not want to use them.

In discussion of the matter, it was noted that the Secretary had stated that the proposal, in its broad outlines, conformed closely to a recommendation of the President's Committee on Financial Institutions. Reference therefore was made to the Committee's conclusion 23, reading in part as follows:

The Committee concludes that practices of bank supervisory and examining agencies in the Federal Government have not always been fully satisfactory in achieving needed cooperation and coordination.

Existing agencies should strive to achieve greater cooperation and coordination under common standards, regulation and procedures, than has been achieved in the past. Reviews should be made, however, at the discretion of the President, to determine whether this approach is proving successful in anticipating and resolving major common problems.....

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The question raised was whether the procedure proposed in the Secretary's letter fitted in with the conclusion of the President's Committee, so far as the latter contemplated achievement of greater interagency cooperation through anticipation of major problems, rather than dealing with problems after they had arisen; and in that connection, whether the Board's reply should make a suggestion for a procedure geared more specifically to the objective implicit in the Committee's recommendation.

Chairman Martin expressed the view that the Board should, as and when appropriate, support implementation of the recommendation of the President's Committee, but he suggested that this be kept separate from the matter immediately before the Board. The present proposal, as he understood it, represented primarily Secretary Fowler's effort to improve upon the situation that had prevailed since the issuance of former Secretary Dillon's letter of March 3, 1964.

It was noted also that according to Secretary Fowler's letter the items taken up by the Coordinating Committee need not be restricted to resolving conflicts that had already arisen; the agenda could include proposals for actions to be taken in order to avoid conflicts.

This led to a discussion of the apparent scope of the proposed Committee's activities during which Chairman Martin said he perceived no real limit on the scope of such activities. The proposed reply did contain, he noted, a comment that it might not be possible to resolve all differences among the Federal bank supervisory agencies in the absence

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of appropriate legislation. And there was in the Secretary's letter a statement recognizing that in view of the statutory responsibilities of each agency, certain matters might not be amenable to coordination. Essentially, though, the Chairman saw the proposal as a device to bring the agencies together for periodic discussions, since at present the agencies had no common meeting ground. The Chairman made the further comment that at meetings of the Committee the Board's representative could of course raise any issues or oppose any proposed actions at his discretion.

Chairman Martin then suggested that Governor Robertson be designated as his alternate to serve on the Coordinating Committee. Governor Robertson, however, outlined certain reasons why he felt that another designation might be more helpful. Other Board members, who pointed to Governor Robertson's expertise in the field of bank supervision, expressed themselves as feeling that the points Governor Robertson had mentioned were not over-riding. As a possible alternative, however, it was suggested that Chairman Martin might serve as the Board's representative on the Committee and designate other members of the Board to attend meetings of the Committee in his place on an ad hoc basis. Governor Robertson then indicated that he would like to have until tomorrow to give the matter further thought, and it was understood that this would be agreeable to the Board.

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Included in additional discussion were queries on how far-ranging the scope of matters considered by the Coordinating Committee might become and on the role that the Secretary of the Treasury apparently would assume as a conciliator if problems were not resolved within the Committee. It was the consensus that questions of this kind could not be answered satisfactorily at this point and must await clarification in the light of developments. At the same time, there was general agreement that the reply to Secretary Fowler should be in terms reflecting willingness to participate in the proposed procedure.

It was understood that a revised draft of reply to Secretary Fowler, framed in such manner as to take into account the tone of the discussion at this meeting, would be distributed preparatory to further consideration of the Secretary's letter by the Board tomorrow.

The meeting then adjourned.

Secretary's Notes: Pursuant to the general authorization given at the meeting on April 22, 1965, there was sent today, with the approval of Governor Shepardson, a letter to Booz, Allen & Hamilton, Inc., Cleveland, Ohio, advising of the appointment of that firm to assist in developing guidelines for determining appropriate salary ranges for Federal Reserve Bank officers. As indicated by a statement of terms and conditions enclosed with the letter, the specific objective was to obtain factual information regarding salaries paid in the Dallas community for positions comparable to those of Reserve Bank officers supervising eight designated functions. It was understood that professional fees would not exceed \$7,000 and that reimbursable expenses would range between \$1,500 and \$2,000, with payment to be made by the Board upon receipt of the final report.

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

Appointments

Edward T. Bernard as Research Assistant, Division of Research and Statistics, with basic annual salary at the rate of \$6,650, effective the date of entrance upon duty.

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

Karen A. Brown as Mailing List Clerk-Flexowriter Operator, Division of Administrative Services, with basic annual salary at the rate of \$3,680, effective the date of entrance upon duty.

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

Transfer

Martha Jane Tucker, from the position of Stenographer in the Division of Personnel Administration to the position of Stenographer in the Legal Division, with no change in basic annual salary at the rate of \$4,005, effective July 4, 1965.

Governor Shepardson today noted on behalf of the Board a memorandum from the Division of Examinations advising that W. J. McClelland, Assistant to the Director of that Division, had filed application for retirement, effective July 1, 1965.


Secretary

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Item No. 1
6/30/65

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



**ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD**

June 30, 1965

Board of Directors,
The Farmers and Citizens Bank,
Trotwood, Ohio.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Farmers and Citizens Bank, Trotwood, Ohio, of a branch at the intersection of Shiloh Springs Road and Denlinger Road, Madison Township, Montgomery County, Ohio, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

**Kenneth A. Kenyon,
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.)

Item No. 2
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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 30, 1965.

Philadelphia International Investment Corporation,
P. O. Box 7618,
Philadelphia, Pennsylvania 19101.

Gentlemen:

In accordance with the request in your letter of May 28, 1965, transmitted through the Federal Reserve Bank of Philadelphia, and on the basis of information furnished, the Board of Governors grants consent for your Corporation to purchase and hold 100,000 ordinary shares, par value £1 each, of Arbuthnot Latham & Co. Limited ("ALCL"), London, England, at a cost of approximately US\$588,000, 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 ALCL within the terms of the above consent in excess of 15 per cent of your Corporation's capital and surplus.

The foregoing consent has been given with the understanding that the foreign loans and investments of your Corporation, separate and apart from the foreign loans and investments of its parent bank, and including the investment now being approved, will not exceed the guidelines established under the voluntary foreign credit restraint effort now in effect, or that steps have been established to bring total claims on foreigners to a level consistent with the guidelines within a reasonable length of time.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.