

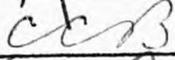
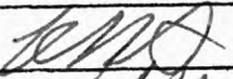
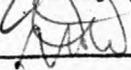
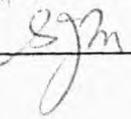
Minutes for August 4, 1965

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, August 4, 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. Maisel

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Molony, Assistant to the Board
 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
 Mr. Smith, Assistant Director, Division of Examinations
 Mrs. Semia, Technical Assistant, Office of the Secretary
 Miss Hart and Mr. Young, Senior Attorneys, Legal Division
 Mr. Egertson, Supervisory Review Examiner, Division of Examinations

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

Item No.

Letter to Nevada Bank of Commerce, Reno, Nevada, approving the establishment of a branch at Rancho Drive and Sahara Avenue, Las Vegas.

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Item No.

Letter to the Comptroller of the Currency regarding
a revised order for printing Federal Reserve notes
during the fiscal year ending June 30, 1966.

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Custody control standards (Item No. 3). In a letter of May 20, 1964, pursuant to action on May 13, the Board informed the Chairman of the Conference of Presidents that it accepted the recommendations resulting from a study by a subcommittee of the Conference of Reserve Bank practices in the safekeeping of securities. The Board also expressed the desire, however, that the Conference proceed further with the development of control standards that would tend to assure the safe custody of negotiable items of value of all types while they were in the possession of the Reserve Banks. On June 14, 1965, the Conference approved, with certain reservations, recommendations contained in a report of May 27, 1965, from the Ad Hoc Subcommittee on Custody Control Standards. There had now been distributed a memorandum dated July 29, 1965, in which the Division of Examinations discussed the findings of the Subcommittee and some of the problems encountered in its study, especially the adaptation of standards to varying circumstances at different Reserve Banks. Attached to the memorandum was a draft of letter to the Presidents of the Federal Reserve Banks that would endorse the general standards recommended in the Subcommittee's report; comment on the necessarily broad approach taken by the Subcommittee and the reservations expressed by the Conference of Presidents; make clear the Board's concern that the Banks' procedures

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provide appropriately and adequately for the safeguarding of valuables in their custody; and express the Board's intent to rely on its examiners to resolve questions of compliance with the recommended general standards.

Governor Shepardson observed that the draft letter contemplated that any questions a Reserve Bank might have with regard to its application of the recommended standards should be taken up with the Board's examiners at the time of examination of the Bank and that if such questions were not resolved acceptably to the Bank and to the examiners the matter would be brought to the attention of the Board in the regular examination reporting process. It appeared to him that any such problem would be essentially of an operational character. Accordingly, under the directives the Board had adopted to define the duties of the various divisions of its staff, it would seem appropriate for the Division of Bank Operations to come into the picture with a recommendation as to the Bank's procedures and their possible adjustment. He suggested saying in the letter that any such matter would be brought promptly to the attention of the Division of Bank Operations for study of operational aspects prior to submission to the Board. Also, it seemed to Governor Shepardson that attention to such a matter should not necessarily be delayed until examination of the Bank concerned. He suggested further, therefore, including an additional sentence in the letter to indicate that if a Bank had questions it wished to have resolved prior to the next examination, such questions should be submitted directly to the Board for staff study and recommendation.

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The ensuing discussion included comments on the respective functions of the Divisions of Examinations and Bank Operations, as indicated in the directives to the staff to which Governor Shepardson had referred, including the advisability of not having the examining staff become deeply involved in operational problems. There was general agreement with a clarifying remark that the examining staff would be expected to report any instances at time of an examination where there was a conflict between security and cost standards, with the problem then to be referred to the Division of Bank Operations for study and submission of a recommendation to the Board if necessary. Reference was made to specific situations where particular Reserve Banks reportedly considered it impracticable to apply the recommended custody control standards literally, and it was evident from the comments that the Board would expect adherence to the standards if they were considered necessary safeguards. However, the view was expressed that study of such cases might lead to the development of mutually satisfactory procedures.

At the conclusion of the discussion the letter to the Federal Reserve Bank Presidents was approved unanimously in the form attached as Item No. 3, reflecting Governor Shepardson's suggestions.

Messrs. Kenyon and Daniels then withdrew from the meeting.

Application of Marine Midland Trust Company. There had been distributed a memorandum dated August 3, 1965, from the Legal Division submitting drafts of an order and statement reflecting the Board's

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approval on July 14, 1965, of the application of The Marine Midland Trust Company of New York to acquire the assets and assume the liabilities of Grace National Bank of New York, both banks being in New York City.

The memorandum commented on a letter that had been received from Thurman Arnold, of Arnold, Fortas & Porter, as counsel for Michael P. Grace, II, who was described as a creditor as well as a stockholder of Grace National. The letter asserted that the proposed acquisition violated principles of equitable protection of minority stockholders' rights and of creditors' rights, and asked that the Board withhold action on the application pending its investigation of the matter set forth in the letter or pending reference of the matter to and a decision thereon by the Comptroller of the Currency. Six points of complaint were set out in the letter, the first and principal of which was that the form of the proposed transaction, namely, an acquisition of assets and assumption of liabilities, had been chosen in an attempt to deprive dissenting shareholders of Grace National of appraisal rights that they would have had if the transaction had taken the form of a merger or consolidation. The memorandum, which noted that additional delay would occur if the Board acceded to the requests in Judge Arnold's letter, recommended that the Board proceed to issue its order and statement approving the acquisition. If this course were followed, the matter raised by Judge Arnold might be handled by a brief reference

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in the Board's statement (such a reference had been incorporated in the draft submitted) and a copy of the statement sent to Judge Arnold. As an alternative, the reference could be omitted from the statement and reply could be made by letter to Judge Arnold.

Mr. Shay noted that one reason the Legal Division believed it preferable to mention the complaint in the statement was that the letter from Judge Arnold had indicated that a suit would be filed shortly in Federal Court in New York asking for a declaratory judgment and an injunction against the transaction. Since the allegations of the suit would be public knowledge, it would appear desirable that the public also have knowledge that the Board had taken account of the complaint.

Governor Maisel remarked that, although the draft statement pointed out that the form chosen for the Marine Midland transaction was one permitted under the law, it did not deal with the contention, inherent in Judge Arnold's request, that the Board should take responsibility for appraising the equity of a bank's transactions with its shareholders in a matter of this kind. If the Board felt it was not charged with such responsibility, he believed the statement should make clear that the Board had not attempted to evaluate the merits of the contention.

Mr. Shay responded that the letter from Judge Arnold involved, among other things, interpretation of statutes relating to national banks; the liquidation of Grace National Bank would be supervised by the Comptroller of the Currency. Mr. Shay also commented on somewhat similar questions that had been involved in previous applications.

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The discussion then turned to the matter of timeliness of the complaint, and the staff expressed doubt that this should be cited as a principal reason for declining to explore the complaint in depth. Conceivably, there could be a situation in which a complaint, although not timely, would present a forceful argument previously unknown to the Board.

Other comments suggested bringing out more strongly that the information upon which the complaint was based had been part of the background material available to the Board, so it could be said that the Board had already given consideration to such information in substance. It was also suggested that greater emphasis be given to the fact that the courts were the appropriate forum for deciding such complaints.

Other suggestions dealt with clarifying the competitive impact of the proposed transaction on the banking structure of New York State, particularly since Marine Midland Trust Company was a subsidiary of a large State-wide bank holding company system; and with bringing out more strongly that the transaction would serve the convenience and needs of the community in that Grace National's expertise for international business would be made more widely available. Various editorial changes were also proposed.

At the conclusion of the discussion it was understood that a revised draft of statement would be submitted for the Board's consideration.

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All members of the staff except Mr. Sherman then withdrew and Mr. Holland, Associate Director, Division of Research and Statistics, entered the room.

Study of discount mechanism. Chairman Martin referred to previous discussions of the proposed reappraisal of the System's discount instrument and its relationship to other instruments of monetary policy, as presented in a staff memorandum dated April 21, 1965, and as discussed more recently at the meeting of the Board on June 24, 1965. He stated that in accordance with the latter discussion he had talked with President Hayes about the committee arrangements that might be appropriate for making such a study, the general idea of the study having been endorsed by the Conference of Presidents at its meeting on June 14, 1965. The Chairman said that at his request Mr. Holland had furnished him with a memorandum suggesting possible committee arrangements, and he then called upon Mr. Holland for a report of the status of work on this project.

Mr. Holland said that in accordance with the understanding at the June meeting the staff had been developing an outline of the kind of detailed studies that might be made, including those that might be completed quickly and those that might involve a greater amount of time and would depend upon formation of some guidance committee. In addition, the staff had been organizing some of the data that might be useful to the study. The Board recently had employed Mr. Bernard Shull, formerly

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an economist with the Federal Reserve Bank of Philadelphia and more recently employed in the Office of the Comptroller of the Currency, and Mr. Shull had been made available full time for work on this project.

Chairman Martin stated that he felt it would be desirable for the Board to designate Governors Mitchell and Maisel to look into the arrangements for carrying forward the proposed study. This would include determining committee arrangements and suggesting names of members of the committees that the Board might appoint. He felt there should not be undue delay in getting the study under way, and in the light of his discussion with President Hayes, who had raised some questions about the committee formation, he felt that it would now be appropriate to move ahead. He also stated that, if this procedure was agreeable to the Board, he would call Mr. Bopp as Chairman of the Conference of Presidents and inform him of the program.

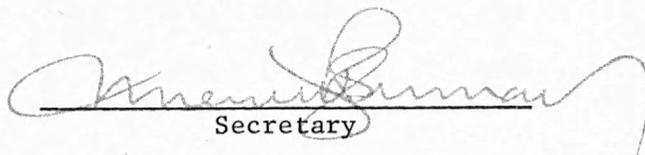
In the subsequent discussion all of the members of the Board who were present expressed agreement with Chairman Martin's proposal. During this discussion Chairman Martin suggested that Governor Shepardson also be a member of the committee along with Governors Mitchell and Maisel, with the understanding that Governor Mitchell would serve as its chairman and that the committee would report back to the Board promptly with its recommendations for the study.

The meeting then adjourned.

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Secretary's Note: Governor Shepardson today approved on behalf of the Board a memorandum from the Office of the Secretary recommending acceptance of the resignation of John Baird, General Assistant in that Office, effective at the close of business August 13, 1965.



Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
8/4/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 4, 1965.

Board of Directors,
Nevada Bank of Commerce,
Reno, Nevada.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Nevada Bank of Commerce, Reno, Nevada, of a branch at the intersection of Rancho Drive and Sahara Avenue, Las Vegas, Nevada, 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.)

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2
8/4/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 4, 1965.



The Honorable,
The Comptroller of the Currency,
Treasury Department,
Washington, D.C. 20226

Sir:

This refers to our letter of June 29, 1965, requesting that you place an order with the Bureau of Engraving and Printing for printing 2,275,072,000 Federal Reserve notes (single units) of the 1963 Series or 1950 Series during the fiscal year ending June 30, 1966.

The order was subject to adjustment in small amount for particular denominations in order to accommodate the serial numbering procedures for currency.

The Bureau of Engraving and Printing has now advised us of the adjustments. The revised printing order for Federal Reserve notes to be delivered in fiscal year 1966 is shown below:

	<u>Denomi- nation</u>	<u>Number of notes</u>	<u>Dollar amount</u>
Boston	\$1	79,360,000	\$79,360,000
	5	23,840,000	119,200,000
	10	30,400,000	304,000,000
	20	5,000,000	100,000,000
	50	784,000	39,200,000
	100	784,000	78,400,000
New York	\$1	151,200,000	\$151,200,000
	5	55,160,000	275,800,000
	10	25,600,000	256,000,000
	20	12,600,000	252,000,000
	50	3,120,000	156,000,000
	100	2,576,000	257,600,000

The Comptroller
of the Currency

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	<u>Denomi- nation</u>	<u>Number of notes</u>	<u>Dollar amount</u>
Philadelphia	\$1	93,440,000	\$93,440,000
	5	35,840,000	179,200,000
	10	31,680,000	316,800,000
	20	3,240,000	64,800,000
	50	1,024,000	51,200,000
	100	784,000	78,400,000
Cleveland	\$1	92,960,000	\$92,960,000
	5	29,560,000	147,800,000
	10	19,200,000	192,000,000
	20	24,320,000	486,400,000
	50	1,280,000	64,000,000
	100	752,000	75,200,000
Richmond	\$1	127,520,000	\$127,520,000
	5	45,440,000	227,200,000
	10	37,400,000	374,000,000
	20	38,400,000	768,000,000
	50	528,000	26,400,000
	100	1,504,000	150,400,000
Atlanta	\$1	155,040,000	\$155,040,000
	5	38,120,000	190,600,000
	10	14,880,000	148,800,000
	20	10,800,000	216,000,000
	50	--	--
	100	1,008,000	100,800,000
Chicago	\$1	211,520,000	\$211,520,000
	5	76,880,000	384,400,000
	10	71,200,000	712,000,000
	20	47,920,000	958,400,000
	50	1,840,000	92,000,000
	100	2,432,000	243,200,000
St. Louis	\$1	70,400,000	\$70,400,000
	5	17,560,000	87,800,000
	10	5,760,000	57,600,000
	20	7,040,000	140,800,000
	50	1,008,000	50,400,000
	100	496,000	49,600,000

The Comptroller
of the Currency

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	<u>Denomi- nation</u>	<u>Number of notes</u>	<u>Dollar amount</u>
Minneapolis	\$1	30,080,000	\$30,080,000
	5	12,800,000	64,000,000
	10	--	--
	20	3,240,000	64,800,000
	50	--	--
	100	288,000	28,800,000
Kansas City	\$1	62,080,000	\$62,080,000
	5	21,160,000	105,800,000
	10	10,960,000	109,600,000
	20	13,440,000	268,800,000
	50	320,000	16,000,000
	100	464,000	46,400,000
Dallas	\$1	67,840,000	\$67,840,000
	5	16,640,000	83,200,000
	10	11,760,000	117,600,000
	20	5,760,000	115,200,000
	50	496,000	24,800,000
	100	784,000	78,400,000
San Francisco	\$1	189,280,000	\$189,280,000
	5	54,280,000	271,400,000
	10	23,040,000	230,400,000
	20	40,440,000	808,800,000
	50	1,312,000	65,600,000
	100	2,784,000	278,400,000
Totals	\$1	1,330,720,000	\$1,330,720,000
	5	427,280,000	2,136,400,000
	10	281,880,000	2,818,800,000
	20	212,200,000	4,244,000,000
	50	11,712,000	585,600,000
	100	14,656,000	1,465,600,000
		<u>2,278,448,000</u>	<u>12,581,120,000</u>

Respectfully,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 3
8/4/65

S-1965

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



August 9, 1965.

Dear Sir:

Reference is made to the report dated May 27, 1965, prepared by the Ad Hoc Subcommittee on Custody Control Standards, copies of which have been furnished to all the Reserve Banks. As you know, the Conference of Presidents, at its meeting of June 14, 1965, accepted the report and approved its recommendations.

The study covered by the report was an extension of an earlier study by the Ad Hoc Committee on Safekeeping Procedures that was the subject of the Board's letter of May 20, 1964. Both studies were requested by the Board because of its concern that all the Banks employ effective means to safeguard negotiable items of value entrusted to their care. To that end it was felt that general standards for the guidance of all the Reserve Banks would be desirable.

The Board believes that the recommended standards set forth in Part II of the report on Custody Control Standards, like the standards in the report on Safekeeping Procedures, expound principles that should be reflected in the operating procedures followed in each Reserve Bank office.

In its report (at page 3), the Subcommittee commented on the difficulty of devising standards that would be applicable in all offices in view of the diversity of volume of work, physical facilities, and size of staff. Also, in a letter dated June 28, 1965, informing the Board of the action taken by the Conference of Presidents on the report of the Ad Hoc Subcommittee on Custody Control Standards, Chairman Bopp stated in part: "The Conference recognized, however, that in an individual Reserve Bank there may be special circumstances which could make it impractical or too costly to adopt certain ones of the standards recommended in Part II of the report. In such cases it was felt the Reserve Banks should discuss the matter with the Board of Governors."

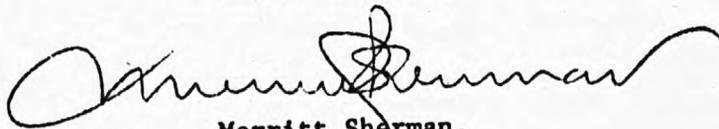
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The Board is aware that levels of activity at certain offices which vary widely from System averages either on the high or low side present special problems, peculiar to the respective situations, in adapting operating procedures to the recommended standards. The Board believes, however, that there must be an appropriate balance between considerations of expediency and the need for assuring the integrity of operations, and that the objectives implied in the recommended standards are of more significance than the methods for attaining them. In this context, and without intending any relative evaluation of the respective recommended standards, the Board regards it as important that (1) there should be adequate separation of duties in the organization of the work so that one person may not handle all phases of a particular transaction; (2) the verification procedures applied to negotiable items of value at the time a Bank's accountability is established and at the time such items are surrendered from a Bank's custody should be such as to support the Bank's position in the event the accuracy of the kind or amount of items is challenged by the depositor or by the party to whom they are delivered; and (3) that the Bank's records are adequate to enable the tracing of the items through their processing in the Bank.

The Board's examiners have the responsibility for evaluating internal controls and safeguards during each annual examination, and this would be an opportunity for the Bank to initiate with the examiners discussion of questions such as those referred to in the quoted excerpt from Mr. Bopp's letter. If the questions are not resolved acceptably to the Bank and to the examiners, the latter will promptly bring them to the attention of the Board's Division of Bank Operations for study of operational aspects, prior to submission to the Board.

If a Reserve Bank has questions regarding this general subject that it wishes to have resolved prior to the next visit of the Board's examiners, they should be submitted directly to the Board for staff study and recommendation.

Very truly yours,



Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.