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Minutes for August 30, 1965

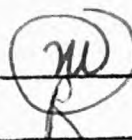



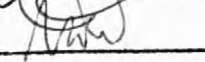


To: Members of the Board

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 
- Gov. Robertson 
- Gov. Balderston 
- Gov. Shepardson 
- Gov. Mitchell 
- Gov. Daane 
- Gov. Maisel 

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

PRESENT: Mr. Balderston, Vice Chairman
Mr. Shepardson
Mr. Mitchell
Mr. Daane
Mr. Maisel 1/

Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Goodman, Assistant Director, Division
of Examinations
Miss Eaton, General Assistant, Office of the
Secretary
Mr. Furth, Consultant
Mr. Grimwood, Chief, Liaison Office, Office of
Defense Planning

Messrs. Holland, Garfield, Solomon, Williams,
Dembitz, Axilrod, Eckert, Ettin, Fisher,
Gehman, Keir, Peret, Thompson, and Wernick
of the Division of Research and Statistics

Messrs. Katz, Sammons, Irvine, Reynolds, Gekker,
Hart, Mills, Nettles, and Ruckdeschel of the
Division of International Finance

Economic review. A review of international financial develop-
ments and domestic business and financial developments was presented
by the Divisions of International Finance and Research and Statistics.

All members of the staff who had been present except Mr. Kenyon
then withdrew and the following entered the room: Messrs. Johnson,
Director, Division of Personnel Administration; Hexter, Assistant General
Counsel; Daniels, Assistant Director, Division of Bank Operations; Leavitt,
Assistant Director, Division of Examinations; Plotkin, Senior Attorney,
Legal Division; and Heyde, Attorney, Legal Division.

1/ Withdrew from meeting during course of economic review.

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Circulated 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 Birmingham-Bloomfield Bank, Birmingham, Michigan, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	1
Letter to the Federal Reserve Bank of St. Louis concerning the classification of member banks in the Eighth District for the purpose of electing Class A and Class B directors.	2
Letter to the Federal Reserve Bank of Kansas City approving the appointment of Joseph William Davis as Federal Reserve Agent's Representative at the Oklahoma City Branch.	3

Registration statement of Cleveland Trust Company (Item No. 4).

There had been distributed a draft of reply to a letter dated August 6, 1965, in which Chairman Patman of the House Banking and Currency Committee raised certain questions with regard to the accuracy and sufficiency of the registration statement filed by The Cleveland Trust Company, Cleveland, Ohio, pursuant to section 12(g) of the Securities Exchange Act of 1934 and Regulation F, Securities of Member State Banks.

In a discussion of the matter, during which Mr. Plotkin reviewed the nature of the questions that had been raised by Chairman Patman--in the August 6 letter and in previous correspondence--concerning the trust company's practices and registration statement, along with similar questions that had been raised by Mr. Cyrus Eaton of Cleveland, a number of

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suggestions were made for changes in the proposed reply, principally for the purpose of deleting material regarded as extraneous. Unanimous approval then was given to a letter in the form attached as Item No. 4.

Dinner in connection with Fund-Bank meetings. Governor Shepardson referred to a suggestion by Governor Daane, following informal discussion with Treasury officials, that the Federal Reserve join the Treasury in tendering a dinner at the State Department on September 24, 1965, for representatives of the Group of Ten and Working Party 3 attending the annual meetings of the International Monetary Fund and the International Bank for Reconstruction and Development. This would be in line with past practice in host countries, and it was anticipated that approximately 75 persons might attend.

This suggestion was approved unanimously, and the payment of the cost incurred by the Board as co-host with the Treasury was authorized.

The meeting then adjourned.

Secretary's Notes: The requirements contemplated by the Board's action on August 3, 1965, in approving the issuance of a preliminary permit to Citizens and Southern International Corporation, Atlanta, Georgia, having been completed, a letter was sent today to that corporation transmitting a final permit to commence business.

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

Letter to the Federal Reserve Bank of St. Louis (attached Item No. 5) approving the appointment of Jerome Robert Rogers as assistant examiner.

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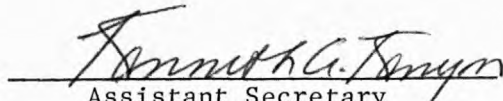
Memoranda recommending the following actions relating to the Board's staff:

Transfer

Bernice T. Mann, from the position of Secretary in the Division of Research and Statistics to the position of Secretary in the Office of the Secretary, with no change in basic annual salary at the rate of \$6,800, effective upon assuming her new duties.

Acceptance of resignation

Wallace H. Wilson, Summer Research Assistant, Division of Research and Statistics, effective at the close of business August 31, 1965.


Assistant Secretary

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

Item No. 1
8/30/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 30, 1965.

Board of Directors,
Birmingham-Bloomfield Bank,
Birmingham, Michigan.

Gentlemen:

The Federal Reserve Bank of Chicago has forwarded to the Board of Governors President Wagner's letter dated June 17, 1965, together with the accompanying resolution dated July 19, 1965, signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

The Board of Governors waives the requirement of six months' notice of withdrawal. Under the provisions of Section 208.10(c) of the Board's Regulation H, your institution may accomplish termination of its membership at any time within eight months from the date that notice of intention of withdraw from membership was given. Upon surrender to the Federal Reserve Bank of Chicago of the Federal Reserve stock issued to your institution, such stock will be cancelled and appropriate refund will be made thereon.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of Chicago.

Very truly yours,

(Signed) Karl E. Bakke

**Karl E. Bakke,
Assistant Secretary.**

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2
8/30/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 30, 1965



Mr. Harry A. Shuford, President,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri. 63166

Dear Mr. Shuford:

This refers to your letter of August 12, 1965, concerning reclassification of member banks in the Eighth District for the purpose of electing Class A and Class B directors.

It is noted that after reviewing the classification, which has been in effect since September 10, 1962, your Bank believes that the grouping is still close enough to the prescribed formula to make unnecessary a classification change this year. The Board concurs in this opinion and will make no change in the existing classification at this time.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3
8/30/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 30, 1965.



Mr. Homer A. Scott,
Federal Reserve Agent,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri. 64106

Dear Mr. Scott:

As requested in your letter of August 12, 1965, the Board of Governors approves the appointment of Mr. Joseph William Davis as Federal Reserve Agent's Representative at the Oklahoma City Branch to succeed Mr. Jay C. Waldroup.

This approval is given with the understanding that Mr. Davis will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of his duties, except that, during the absence or disability of the Federal Reserve Agent or a vacancy in that office, his responsibility will be to the Assistant Federal Reserve Agent and the Board of Governors.

When not engaged in the performance of his duties as Federal Reserve Agent's Representative, Mr. Davis may, with the approval of the Federal Reserve Agent and the Vice President in charge of the Oklahoma City Branch, perform such work for the Branch as will not be inconsistent with the duties as Federal Reserve Agent's Representative.

It will be appreciated if Mr. Davis is fully informed of the importance of his responsibilities as a member of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

Please have Mr. Davis execute the usual Oath of Office which should then be forwarded to the Board of Governors along with notification of the effective date of his appointment.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

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Item No. 4
8/30/65
OFFICE OF THE VICE CHAIRMAN

August 31, 1965.

The Honorable Wright Patman, Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington, D. C. 20515

Dear Mr. Chairman:

This is in response to your letter of August 6, 1965, concerning the registration statement filed by The Cleveland Trust Company, pursuant to section 12(g) of the Securities Exchange Act of 1934 and Federal Reserve Regulation F.

Your letter states that the bank's July 1, 1965, amendment to its registration statement is deficient in at least two respects. You list the following as the first deficiency:

"In Item 11(a) the bank represents that A. A. Welsh & Co. votes the shares held by it 'only as it is directed so to do'. This statement implies that there is active discretion by the beneficial owners in each case with respect to matters to be acted upon at meetings of stockholders. This is not the fact. The very least that the bank should do in order to avoid misrepresentation is to add the words 'or authorized so to do by the underlying trust instruments'."

The addition you suggest might prevent a misunderstanding. However, the primary responsibility for the preparation of a registration statement rests on the registrant bank, and under section 18 of the Act, the bank and its management would be liable for damages resulting from false or misleading statements therein. As part of its review functions, to assure that there is substantial compliance with Regulation F and the Act, our staff examines each registration statement in an effort to assure that no statements are made that are false or misleading and that no material facts are omitted that are necessary to make the information presented not false or misleading. In other words, if it appears that (1) an investor will not be misled after reading the entire contents of the registration statement, or

(2) a presentation that may be less than adequate (in our opinion) relates to a relatively insignificant point, amendment ordinarily is not required. The exercise of judgment in this connection, and the consequent possibility of divergent opinions, are obviously unavoidable.

The second criticism presented by your letter is also a matter of judgment. The bank states that its method of registering the stock in question is expressly authorized by statute. Your letter suggests that the bank should be required to state that such statute does not expressly authorize the voting of such stock. In our judgment, it is unlikely that a reader of the registration statement would infer from the bank's assertion concerning the registering of the stock that the bank also had express statutory authorization for the voting of the stock.

A related comment in your letter is that the bank should be required to mention section 1701.47(c) of the Ohio Revised Code, which you believe "presents a very substantial question as to the legality" of voting by a bank of its own shares. Without exploring the question whether this statutory provision is applicable to Ohio banks (as to which there appears to be substantial controversy), it is our belief that in our review functions, we must ordinarily assume that a bank is acting in accord with applicable State law unless a patent violation is evident.

In addition, the reader of a registration statement may be informed of possible illegal practices even before there has been an adjudication or administrative determination of the matter, as Item 6 of the registration statement requires the bank to disclose any material legal proceedings pending against it. Also, the Board's Form F-3, the current report required to be filed upon the occurrence of specified classes of events, requires the bank to reveal any material legal proceedings to which it becomes a party after the filing of its registration statement.

Your letter further suggests an investigation by the Board (1) "of all aspects of the bank's practice of voting as much as 35 per cent of its stock, and the absolute and tremendous economic power that this practice places in the hands of an insider, or a few insiders, in the very top management of the bank", and (2) "of the extent to which the top management of the bank, through its absolute domination over the Trust Department, provides legal business to some of the lawyers who are directors of the bank and to the law firms which they represent".

I can readily understand your concern with the consequences which may result from the voting by a bank of its own shares. It has

been the policy of the Federal Reserve System to encourage State member banks to dispose of shares of their own stock acquired in a fiduciary capacity.

Under our dual banking system, the powers of State banks (including those that are members of the Federal Reserve System) are derived from State laws and such banks are regulated principally by the respective States. As you may know, the Ohio legislature recently authorized an investigation into the practices of Ohio banks that vote their own stock held in a fiduciary capacity.

Sincerely yours,

(Signed) C. C. Balderston

C. Canby Balderston,
Vice Chairman.

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

Item No. 5
8/30/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 31, 1965.

Mr. O. O. Wyrick, Vice President,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri. 63166

Dear Mr. Wyrick:

In accordance with the request contained in your letter of August 25, 1965, the Board approves the appointment of Jerome Robert Rogers as an assistant examiner for the Federal Reserve Bank of St. Louis, effective October 1, 1965.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.