

Minutes for October 4, 1965.

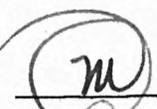
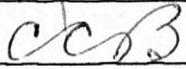
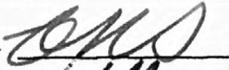
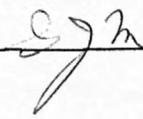
To: Members of the Board

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	<u></u>
Gov. Robertson	<u></u>
Gov. Balderston	<u></u>
Gov. Shepardson	<u></u>
Gov. Mitchell	<u></u>
Gov. Daane	<u></u>
Gov. Maisel	<u></u>

Minutes of the Board of Governors of the Federal Reserve System on Monday, October 4, 1965. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Smith, Assistant Director, Division of Examinations
Mr. Sprecher, Assistant Director, Division of Personnel Administration
Mrs. Semia, Technical Assistant, Office of the Secretary
Mr. Plotkin, Senior Attorney, Legal Division
Mr. Heyde, Attorney, Legal Division
Mr. Egertson, Supervisory Review Examiner, Division of Examinations

Report on competitive factors (Huntingdon-Alexandria, Pennsylvania).

A revision of the proposed conclusion having been agreed upon, unanimous approval was given to the transmittal to the Comptroller of the Currency of a report on the competitive factors involved in the proposed merger of First-Grange National Bank of Huntingdon, Huntingdon, Pennsylvania, with The First National Bank of Alexandria, Alexandria, Pennsylvania. In the form in which approved, the conclusion read as follows:

10/4/65

-2-

There is a small amount of competition existing between First-Grange National Bank of Huntingdon and The First National Bank of Alexandria. Consummation of the proposed merger would increase the size of the now dominant bank in Huntingdon County, and, correspondingly, the effect of the proposed merger on competition is adverse.

Registration statement of Cleveland Trust Company (Item No. 1).

There had been distributed a draft of reply to a letter of September 20, 1965, from Chairman Patman of the House Committee on Banking and Currency with further reference to the registration statement filed by The Cleveland Trust Company, Cleveland, Ohio, pursuant to section 12(g) of the Securities Exchange Act of 1934 and the Board's Regulation F, Securities of Member State Banks. (Earlier related correspondence included a letter approved by the Board on August 30, 1965, responding to Chairman Patman's letter of August 6.)

After a discussion during which Mr. Plotkin commented on background circumstances, the letter was approved unanimously subject to certain editorial changes. A copy of the letter in the form transmitted to Chairman Patman is attached as Item No. 1.

Messrs. Hexter, Plotkin, and Heyde then withdrew from the meeting.

Government security subscriptions by Reserve Bank directors, officers, and employees (Item No. 2). There had been distributed a memorandum dated September 22, 1965, from the Division of Examinations regarding a proposal initiated by the Conference of General Auditors of the Federal Reserve Banks that the Board's outstanding instructions, contained

10/4/65

-3-

in a letter dated April 12, 1933, and supplemented by a letter of May 18, 1944, be modified to permit the respective General Auditors to use their discretion in determining the scope of post-audit of subscriptions to Government issues for the purpose of assuring that subscriptions handled by a Reserve Bank for its directors, officers, and employees were not given favored treatment. The reasons for the proposal, as discussed in the memorandum, were that (1) in recent years terms and circumstances pertaining to offerings of Government securities had not generally presented opportunities for advantage through preferred treatment; (2) under such circumstances detailed analyses of all offerings represented an inefficient use of manpower in relation to results achieved; and (3) present-day audit concepts favored an approach that took into consideration relevant circumstances and was tailored to the objectives sought. Attached to the memorandum was a draft of letter to the Chairmen and Presidents of all Federal Reserve Banks that would revise the outstanding instructions.

Mr. Smith made summary comments, after which there was discussion of a question raised by Governor Daane as to the appropriateness of the present time for the proposed revision of instructions. Comment was made that the proposed procedures were in accord with the present-day audit concepts that were reflected in procedures such as those now followed by the Board's examining staff in its examination of Federal Reserve Banks. In line with this general approach, the Reserve Bank

10/4/65

-4-

auditors would be given discretionary latitude, thus enabling them to concentrate their efforts on situations where it appeared most likely that any deviations from the principle laid down in 1933 could occur. The general principle, it was noted, would be reaffirmed. Governor Daane, who at the outset of the discussion had indicated that he was sympathetic to the proposal and that his only question related to the element of timing, expressed general agreement at the end of the discussion with the consensus that the proposed liberalization of the erstwhile rigid procedures was justifiable.

The letter was then approved unanimously. A copy is attached as Item No. 2.

Salary of officer at Boston Reserve Bank (Item No. 3). Unanimous approval was given to a letter, a draft of which had been distributed with a memorandum from the Division of Personnel Administration dated September 30, 1965, approving payment of salary to Donald A. Pelletier as Assistant General Auditor at the Federal Reserve Bank of Boston at the rate fixed by the Bank's Board of Directors. A copy of the letter is attached as Item No. 3.

Bank of Dublin matter (Items 4 and 5). Earlier this year Peoples Bank of Radford, Radford, Virginia, a subsidiary of The First Virginia Corporation, a registered bank holding company, had merged with Bank of Dublin, Dublin, Virginia. The merged institution now operated under the title Bank of New River Valley. At today's meeting Mr. O'Connell

10/4/65

-5-

reported that First Virginia Corporation wished to file a fidelity bond claim for recovery of certain losses sustained by Bank of Dublin, and for that purpose had requested access to the confidential sections of reports of examination of Bank of Dublin as of January 25, 1965, and May 3, 1965, and also to any other materials or documents that might support its claim. (During the meeting a letter was received from the Federal Reserve Bank of Richmond recommending that First Virginia be given access to the requested reports of examination and stating that the Bank did not have available any other material that might serve the holding company's needs.) A search of the Board's files had indicated that two particular documents might be useful for First Virginia's purpose; the first had been prepared by the Federal Deposit Insurance Corporation and the second by the Federal Bureau of Investigation. The staff of the Corporation had advised informally that there would be no objection to the Board's making a copy of the first document available for inspection by First Virginia. The Federal Bureau of Investigation had asked that its authorization as to the second document be requested in writing. Mr. O'Connell recommended that representatives of First Virginia be allowed to read, at the Board's offices, the confidential sections of the reports of examination, and also the document prepared by the Federal Deposit Insurance Corporation, and that a letter be written by the Secretary of the Board requesting authorization from the Federal Bureau of Investigation to grant similar access to the second document mentioned.

10/4/65

-6-

The procedures recommended by Mr. O'Connell were approved unani-
mously. A copy of the letter sent to First Virginia Corporation is
attached as Item No. 4, and a copy of the letter sent to the Federal
Bureau of Investigation is attached as Item No. 5.

Secretary's Note: The granting of access
to the FBI report was subsequently refused
by the Bureau.

Request for bank merger information. Mr. Shay stated that he
had received a telephone call from Counsel for the House Committee on
Banking and Currency requesting on behalf of Chairman Patman, and within
the next day or so, the names of approximately 2,200 banks that had been
involved in mergers since 1950 and would be exempted by the terms of certain
pending legislative proposals from antitrust proceedings by the Department
of Justice. Also requested were figures showing the assets of the partic-
ipant banks before and after each merger, both in dollar amounts and in
terms of percentages of local market. Mr. Patman was understood to desire
this information because he was interested in how well the Board had exer-
cised its authority under section 11 of the Clayton Act to enforce com-
pliance with section 7 of the Act and because he felt that if past mergers
were to have antitrust exemption his Committee should have such information.

There ensued discussion bearing upon possible sources for the
requested information and problems involved in the appropriate delinea-
tion of local market areas. There was agreement that in any event it
would not be possible to produce the information as quickly as Mr. Patman
wished to have it.

10/4/65

-7-

At the conclusion of the discussion it was understood that Mr. Shay would inform the Committee's Counsel that the Board's staff would explore the extent to which it would be feasible to supply the requested data but that the project might take some time to complete.

The meeting then adjourned.

Secretary's Notes: On October 1, 1965, Governor Shepardson approved on behalf of the Board a memorandum from the Division of Bank Operations recommending the reemployment following maternity leave of Mary Teresa Atchison as Secretary in that Division, with an increase in basic annual salary from \$5,660 to \$6,060, effective October 4, 1965.

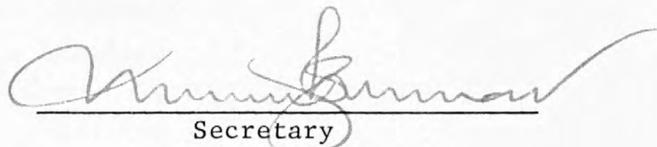
Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of San Francisco (attached Item No. 6) approving the appointment of Ira Kent Beckman as assistant examiner.

Memorandum from the Division of Research and Statistics dated September 29, 1965, recommending that an additional economist position be established in the Banking Section of that Division.

Memorandum from the Division of Examinations dated October 1, 1965, recommending that Frederick R. Dahl, Chief, Special Studies and Operations Section, Division of International Finance, be commissioned as a Federal Reserve examiner.

Memorandum from the Division of Data Processing recommending the transfer of Mary Margaret Menegos from the position of Clerk-Typist in that Division to the position of Stenographer, with an increase in basic annual salary from \$4,140 to \$4,480, effective October 4, 1965.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 1
10/4/65

OFFICE OF THE VICE CHAIRMAN

October 7, 1965.



The Honorable Wright Patman, Chairman,
Committee on Banking and Currency,
House of Representatives,
1136 Longworth Building,
Washington, D. C. 20515

Dear Mr. Chairman:

This is in response to your letter of September 20, 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 is concerned with the fairness of disclosure of Item 11(a) of the registration statement. It states that you "find it impossible to concur" in our judgment that 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.

The bank's statement in Item 11 is that:

"This method of registering stock [in the name of a nominee partnership] is the commonly accepted practice by corporate fiduciaries and is expressly authorized by statute."

This statement is accurate. You assert that it is advanced gratuitously as an attempt to justify the bank's practice of voting its capital stock held by it through its nominees. Granting that the statement is "gratuitous", we do not believe that it implies that the bank has express statutory authority to vote its stock (as distinguished from registering its stock in the name of a nominee).

Moreover, the registration statement indicates that the bank votes its own shares. If there is a controversy as to the lawfulness or desirability of this practice, it should be resolved by the courts, State banking authorities, or appropriate legislation, not by debate in the bank's registration statement.

Your letter further states that the bank's statement that A. A. Welsh & Co. votes the shares held by it "only as it is directed so to do" is a "gross misrepresentation of fact". We do not agree.

Immediately following this statement of the bank is a description of the classes of beneficial owners of the shares held by A. A. Welsh & Co., the percentage of such shares as to which the bank has sole voting power, and the percentage of such shares as to which the bank has less than sole voting power. The Item further discloses that over 23 per cent of the shares as to which the bank has sole voting power are held in trusts that may be terminated at any time by the creators thereof. With respect to the shares as to which the bank has less than sole voting power, the first footnote to the Item indicates that (1) direction of the beneficial owner is required before voting 59,504 of these shares, (2) approval of designated persons is required before voting 59,997 of these shares, and (3) as to 144,118 shares the bank may determine the manner of voting only in the absence of instructions from one or more designated persons. We believe, then, that the Item, read as a whole, is not at all a "gross misrepresentation of fact". The Item read in its entirety clearly indicates that A. A. Welsh & Co. does not in every case receive active direction from the beneficial owners as to the manner in which the shares held by it shall be voted.

We hope that these comments will help to clarify the position of the Board of Governors in this matter.

Sincerely yours,

(Signed) C. C. Balderston

C. Canby Balderston,
Vice Chairman.

3227

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

Item No. 2
10/4/65
S-1969



DIVISION OF
ADMINISTRATIVE SERVICES

October 11, 1965.

Dear Sir:

In a letter dated April 12, 1933 (X-7407, FRLS 9053), the Board expressed the view that a Federal Reserve Bank, in carrying out its responsibilities as fiscal agent of the Treasury Department for the handling of subscriptions to notes, Treasury bills, certificates of indebtedness, and other Government obligations, should take special care to insure that subscriptions filed directly with the Reserve Banks by its directors, officers, and employees "are handled in strict accordance with Treasury instructions and in no respect receive more favorable treatment than is accorded other subscriptions of the same class." Later, the coverage was expanded to include indirect subscriptions; i.e., subscriptions made through commercial banks. The principle implied here accords with the general principle stated by the Board in another context in S-1907, FRLS 9054 dated February 10, 1964 that "officers and employees of a Federal Reserve Bank should refrain from placing themselves in any position that might embarrass the Bank or Federal Reserve System as a whole in the conduct of its operations . . ."

In the second paragraph of the 1933 letter there were suggested certain procedures for the responsible officers and the General Auditor to follow in examining the subscriptions to a Treasury offering. It has come to the attention of the Board that the precise procedures referred to may be more time-consuming than are warranted, inasmuch as a majority of the offerings of Government securities for the past several years have not been of such nature as to provide incentives for the seeking of personal advantage by individual subscribers. Accordingly, while reaffirming the principle expressed above, the Board feels it appropriate to leave to the operating officers and the General Auditor of each Reserve Bank the determination, in the light of the circumstances pertinent to a particular offering, of the methods to be pursued in checking for compliance with this principle.

This letter supersedes X-7407, FRLS 9053 dated April 12, 1933.

Very truly yours,

Merritt Sherman,
Secretary.

TO THE CHAIRMEN AND
PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3
10/4/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 4, 1965.

CONFIDENTIAL (FR)

Mr. George H. Ellis, President,
Federal Reserve Bank of Boston,
Boston, Massachusetts. 02106

Dear Mr. Ellis:

The Board of Governors approves the payment of salary to Mr. Donald A. Pelletier as Assistant General Auditor of the Federal Reserve Bank of Boston at the rate of \$12,000 per annum for the period October 1 through December 31, 1965. This is the rate fixed by your Board of Directors as reported in your letter of September 27.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 4
10/4/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 4, 1965.

The First Virginia Corporation,
2924 Columbia Pike,
Arlington, Virginia. 22204

Attention: Mr. Ralph A. Beeton, President.

Gentlemen:

This refers to your letter of September 28, 1965, requesting access to (1) confidential sections of the reports of examination dated January 25, 1965, and May 3, 1965, of the Bank of Dublin, Incorporated, Dublin, Virginia, and (2) such other papers, documents, or materials as may be made available to First Virginia Corporation ("First") for the effective discharge of stated responsibilities assumed by it in the matter of the Bank of Dublin. You advise that both requests relate to efforts to be undertaken by First to realize upon the Bankers Blanket Bond issued to the Bank of Dublin by Fidelity and Deposit Company of Maryland. Such efforts arise from First's action in May 1965, in depositing \$730,000 in Peoples Bank of Radford, Radford, Virginia, for the credit of the Bank of Dublin following the disclosure that approximately \$700,000 of the Bank of Dublin's loans were worthless due for the most part to the Bank's acceptance of fraudulent notes, collateral papers, and other documents incident to such loans. First's action in making the above \$730,000 deposit was taken with the prior knowledge and consent of Federal and State bank supervisory authorities and with the understanding that immediately thereafter the Bank of Dublin's assets would be acquired and its liabilities assumed by the Peoples Bank of Radford, Radford, Virginia, a subsidiary of First Virginia Corporation.

Your letter of September 28 sets forth in detail considerations that you believe warrant the Board's acceding to your request, and contains the assurance that should the Board grant access to the materials requested, "First agrees that it will not cite, quote, or otherwise reveal the source of any information that it may obtain from such material, nor will it reveal the fact that it has had access thereto, without first obtaining from the Board prior authorization to do so . . .". First asks that its President, Mr. Beeton, and its attorneys Messrs. Eberharter and Potter, be given access to the materials described, on the Board's premises, and under such supervision as the Board may direct.

The First Virginia Corporation

-2-

In view of the action taken by First in May 1965, earlier described herein, and the purpose for which access to the Board's records is now sought, the Board grants to First access to the confidential portions of the January 25 and May 3 reports of examination, and to certain other materials in the Board's files relating to the subject of First's request. The Board's staff has been authorized to make available these materials to one or more of First Virginia Corporation's representatives above named. Communication by your representatives with Mr. Thomas J. O'Connell of the Board's staff (telephone REpublic 7-1100, extension 583) will serve to set a mutually convenient time for your representatives to review the materials in question at the Board's offices, subject to the understandings and conditions set forth in your letter and made the subject of the Board's authorization herein given.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.



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

3231

Item No. 5
10/4/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 4, 1965.

The Honorable J. Edgar Hoover,
Director,
Federal Bureau of Investigation,
Department of Justice,
Washington, D. C. 20530

Re: Fraudulent Financing of House Trailers and Cars
in amount of approximately \$700,000, Bank of
Dublin, Virginia; Field Office File 29-866;
Bureau File 29-39290.

Dear Mr. Hoover:

This refers to the investigation of the above matter conducted by the Federal Bureau of Investigation during July and August 1965, and to the report thereon, a copy of which you forwarded to the Board on September 3, 1965.

At or about May 3, 1965, with the prior knowledge of this Board, the Federal Deposit Insurance Corporation, and the Virginia State Corporation Commission, The First Virginia Corporation, Arlington, Virginia ("First"), a registered bank holding company, deposited approximately \$730,000 in Peoples Bank of Radford, Radford, Virginia, for the credit of the Bank of Dublin, and subsequently, with authorization of appropriate bank supervisory authority, effected a merger of the Bank of Dublin into and with the Peoples Bank of Radford under the title of Bank of New River Valley.

First, through its majority ownership and control of the Bank of New River Valley, has undertaken to realize upon the Bankers Blanket Bond issued to the Bank of Dublin by Fidelity and Deposit Company of Maryland, in respect to a portion or all of the \$700,000 loss represented by the alleged fraudulent house trailer and automobile loans found on the books of the Bank of Dublin. First advises that it will file prior to October 15, a proof of loss claim under the Bankers Blanket Bond. In respect to its preparation of this proof of loss claim, First has asked assistance in the form of access to portions of two reports of examination of the Dublin Bank (reports of examinations at January 25 and May 3, 1965), one of which was

The Honorable J. Edgar Hoover -2-

prepared by the Federal Reserve Bank of Richmond, and the other by the Federal Reserve Bank and the Virginia State Banking Department. First has also requested access to such other papers, documents, or materials pertaining to the subject losses as may reasonably be made available to First in perfecting its claim under the Bankers Blanket Bond.

Among the materials in the Board's files relating to the subject of First's request is the report of investigation prepared by your Bureau to which earlier reference has been made. It is noted that the report states that the same is the property of your Bureau, is loaned to the Board, and its contents are not to be distributed outside the Board. While the Board is aware of the general need and justification for the limitation to access placed by your Bureau upon its reports of investigation, it is believed that in the circumstances presented, First's access to this report would be justified. While we have no reason to believe that First is aware of the Board's possession of this report, upon your authorization the Board would make known its existence to representatives of First and permit their access to the same at the Board's offices and under the supervision of the Board's staff. Absent such authorization, the Board does not propose to voluntarily make known to First's representatives the Board's possession of this report.

In view of the limited time which First advises it has to prepare its proof of loss claim, expeditious consideration of the Board's request for authorization for First's access to this report will be appreciated.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

3233

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

Item No. 6
10/4/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 4, 1965.

Mr. E. H. Galvin, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco, California. 94120

Dear Mr. Galvin:

In accordance with the request contained
in Mr. Davenport's letter of September 29, 1965,
the Board approves the appointment of Ira Kent Beckman
as an assistant examiner for the Federal Reserve Bank
of San Francisco, effective today.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

