

Minutes for October 21, 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

W
R

Gov. Robertson

CCRB

Gov. Balderston

Gov. Shepardson

[Signature]

Gov. Mitchell

[Signature]

Gov. Daane

[Signature]

Gov. Maisel

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on Thursday, October 21, 1965. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Robertson
Mr. Shepardson
Mr. Daane

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research and
Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Shay, Assistant General Counsel
Mr. Leavitt, Assistant Director, Division of
Examinations
Miss Eaton, General Assistant, Office of the
Secretary
Miss Hart, Senior Attorney, Legal Division
Mr. Egertson, Supervisory Review Examiner,
Division of Examinations
Mr. Maguire, Supervisory Review Examiner,
Division of Examinations
Mr. Poundstone, Review Examiner, Division of
Examinations

Circulated or distributed 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 Manufacturers and Traders Trust Company,
Buffalo, New York, approving the establishment of
a branch in the Boulevard Mall Shopping Center,
Town of Amherst.

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Item No.

Letter to First State Bank of Green's Bayou, Houston, Texas, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.

2

Letter to Fidelity Bank & Trust Company, Houston, Texas, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.

3

Letter to Crocker-Citizens International Corporation, San Francisco, California, granting consent to the acquisition of shares of House of Investments, Inc., Makati, Rizal, Philippines.

4

Letter to the Securities and Exchange Commission regarding the question whether a registered broker-dealer violated the provisions of Regulation T by arranging for certain extensions of credit by banks on registered non-exempted bonds.

5

Letter to Glenns Ferry Bank, Limited, Glenns Ferry, Idaho, approving the establishment of a branch in Cambridge.

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During a discussion of Item No. 5 it was agreed that the staff should be requested to submit for the Board's consideration a memorandum dealing with the situation described as follows in the letter to the Securities and Exchange Commission:

"....the Securities Exchange Act of 1934 has the effect of exempting banks from credit regulation respecting loans made on non-equity securities, including, of course, registered bonds. As a result, while Regulation T limits purpose credit extended by creditors on registered bonds, Regulation U does not so limit banks, and the integration of section 7(a) of Regulation T and Regulation U creates a situation where a creditor can arrange credit on terms more favorable than he himself would be permitted to extend or maintain under section 8 of Regulation T."

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Bank of Dublin matter (Item No. 7). A distributed memorandum from Mr. Solomon dated October 20, 1965, reported that the Federal Bureau of Investigation was investigating the circumstances under which about \$750,000 of forged paper had appeared among the assets of Bank of Dublin, Dublin, Virginia, which was now merged into a subsidiary of First Virginia Corporation. Request had been made by that Bureau to see (1) the officers' questionnaires answered by the executive vice president of the bank at the time of each of the last three examinations, and (2) the last three examination reports, including the confidential sections.

The Federal Reserve Bank of Richmond was authorized (1) to supply the FBI with copies of the questionnaires, and (2) to permit the FBI to review, making notes as desired, the last three reports of examination, including the confidential sections. Such information was to be made available subject to the condition that it would not be used as evidence in any court or administrative proceeding without obtaining permission from the Board.

A copy of the telegram sent to the Richmond Reserve Bank in this connection is attached as Item No. 7.

Miss Hart and Messrs. Egertson and Maguire then withdrew from the meeting.

Inquiry from New York Superintendent of Banks. There had been distributed a memorandum dated October 21, 1965, in which Mr. Solomon reported that Mr. Wille, New York State Superintendent of Banks, had

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called President Hayes of the Federal Reserve Bank of New York about two recent rulings of the Comptroller of the Currency that were of concern to Mr. Wille. The rulings were (1) that negotiable or non-negotiable promissory notes issued by national banks were not subject to any borrowing limitations; and (2) that the New York statute forbidding banks to issue negotiable promissory notes did not apply to national banks. Mr. Wille was considering the issuance of a statement that the State statute applied to both national and State banks in New York and that if either type of bank issued negotiable promissory notes, they would be unenforceable. Mr. Wille had indicated that he would like to have any comments the System might care to make before he issued such a statement.

During discussion, question was raised whether the State Superintendent would be able to enforce the contemplated ruling with respect to national banks. It was suggested, in this regard, that in any event the issuance of such a statement by the Superintendent would no doubt be a strong deterrent because many parties would hesitate to purchase negotiable promissory notes of national banks located in New York State as long as the statement was outstanding.

Mr. Hackley expressed the view that it would be inappropriate for the System to take any position with regard to the statement contemplated by Mr. Wille, which related to the applicability of State law. He had expressed to Vice President Bilby of the New York

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Reserve Bank the view that the System should make no comment that might be construed as indicating that it agreed or disagreed with the proposed interpretation.

Governor Daane commented that he thought appreciation should be expressed to Mr. Wille for keeping the System informed as to his thinking. But, recognizing that a matter of construing the law of the State of New York was involved, Mr. Wille should be told that the System had no comment.

Governor Robertson remarked that he felt Mr. Wille was correct. There was no question, he thought, but that the State law was applicable to national as well as State banks. It was appropriate for Mr. Wille to make any statement he desired when a construction of State law was involved. But it would be inappropriate for the System to take any action except as to the application of the law to State member banks. The appropriate step would be simply to thank Mr. Wille for his courtesy in calling the matter to the System's attention.

Governor Shepardson concurred with that view, but he thought there might be doubt about the Comptroller's ruling as far as Federal law was concerned. If the Board questioned its correctness, was there a responsibility to challenge it?

Governor Robertson felt that the Board did have such a responsibility. He thought the time to consider exercising this responsibility was in connection with further consideration by the Board of his

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recommendation that short-term promissory notes of member banks be classified as deposits.

It was agreed that the New York Reserve Bank would be advised that the Board appreciated being informed of Mr. Wille's proposed statement, but that it had no comment to make and felt no comment should be made on behalf of the System.

Procedure for election of members of Open Market Committee.

It was noted that the Federal Reserve Banks of Atlanta, St. Louis, and Dallas might take action to elect Mr. Patterson, the new President of the Atlanta Bank, as a member of the Federal Open Market Committee in lieu of Mr. Bryan. Committee Counsel had pointed out in the past that the law did not provide for an interim election. However, action of this kind was not without precedent.

Mr. Hackley verified the foregoing. It could be argued, he brought out, that the duly elected alternate should serve if a member of the Committee left the service of the Federal Reserve Bank with which he was affiliated, but the question was at least debatable. In the early 1950s the then General Counsel of the Committee had expressed the view that a special election held at that time was not legally objectionable, particularly if the election was reported to the Committee and the Committee raised no objection. The Committee had power to regulate the details of elections; its by-laws provided that if there was any question, the Committee should determine it.

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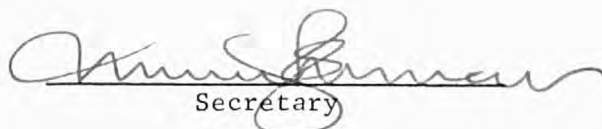
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Mr. Hackley went on to say, however, that while a question of this kind did not arise often, perhaps there should be a definite understanding of the procedure to be followed in such cases. At some point it might be desirable for the Committee to adopt a procedure providing that at the time of the regular annual election the Reserve Banks concerned would elect as a member of the Committee the President of a specified Reserve Bank or his successor.

A comment was made that there might be circumstances in which a newly-appointed Reserve Bank President would not care to assume office immediately as a member of the Open Market Committee, particularly if he lacked previous experience in System affairs.

It was noted that if the three Banks presently concerned should elect Mr. Patterson as a member of the Committee in lieu of Mr. Bryan, the fact of his election would of course be reported to the Committee at the first Committee meeting after such action had been taken. It was also brought out that if the Open Market Committee so desired it could consider, on some occasion prior to the election of Committee members for the year beginning March 1, 1966, a possible change in its procedures that would clarify the course to be followed in the event of resignation, retirement, or death of a Committee member (other than a member of the Board of Governors) during the term of office for which he had been elected.

The meeting then adjourned.


Secretary

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 21, 1965

Board of Directors,
Manufacturers and Traders Trust Company,
Buffalo, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Manufacturers and Traders Trust Company, Buffalo, New York, of a branch in the Boulevard Mall Shopping Center (about 975 feet from your existing Boulevard Mall Office at 1267 Niagara Falls Boulevard), Town of Amherst (unincorporated area), Erie County, New York, provided the branch is established within six months of the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
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.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2
10/21/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 21, 1965

Board of Directors,
First State Bank of Green's Bayou,
Houston, Texas.

Gentlemen:

The Federal Reserve Bank of Dallas has forwarded to the Board of Governors a letter dated September 22, 1965, signed by President Miles Strickland, together with the accompanying resolution, 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 to withdraw from membership was given. Upon surrender to the Federal Reserve Bank of Dallas of the Federal Reserve stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon.

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

Attention is invited to the fact that if your bank is desirous of continuing deposit insurance after withdrawal from membership in the Federal Reserve System, it will be necessary that application be made to the Federal Deposit Insurance Corporation.

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. 3
10/21/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 21, 1965

Board of Directors,
Fidelity Bank & Trust Company,
Houston, Texas.

Gentlemen:

The Federal Reserve Bank of Dallas has forwarded to the Board of Governors two letters, one dated September 21, 1965, and signed by President Alan B. Shepard, Jr., and the other dated September 28, 1965, and signed by Vice President Atwood Myklebust, and resolution dated September 13, 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 to withdraw from membership was given. Upon surrender to the Federal Reserve Bank of Dallas of the Federal Reserve stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon.

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

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

Item No. 4
10/21/65

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 21, 1965.



Crocker-Citizens International Corporation,
1 Montgomery Street,
San Francisco, California. 94120

Gentlemen:

In accordance with the request in your letter of September 16, 1965, addressed to Mr. E. H. Galvin, Vice President, Federal Reserve Bank of San Francisco, and on the basis of information furnished, the Board of Governors grants consent for your Corporation to purchase and hold approximately 80,584 shares, par value Pesos 10 each, of House of Investments, Inc. ("HI"), Makati, Rizal, Philippines, at a cost of approximately US\$250,000, 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 HI within the terms of the above consent in excess of 10 per cent of your Corporation's capital and surplus.

The foregoing consent is given with the understanding that the foreign loans and investments of your Corporation, including the investment now being approved, will not exceed the guidelines established under the voluntary foreign credit restraint effort now in effect.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

Item No. 5
10/21/65

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 21, 1965

Mr. Robert Block, Chief Counsel,
Division of Trading and Markets,
Securities and Exchange Commission,
Washington, D. C. 20549

Dear Mr. Block:

This is in response to your letter of August 20, 1965, requesting an opinion of the Board of Governors as to whether Scudder & German, a registered broker-dealer, has violated the provisions of Regulation T, "Credit by Brokers, Dealers and Members of National Securities Exchanges", by arranging for extensions of credit, by banks subject to Regulation U, "Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks", on registered non-exempted bonds in the following cases: (1) directly with the banks; (2) by arrangements made indirectly with the banks through another "creditor", within the meaning of Regulation T, as intermediary; and (3) by arrangements made indirectly with the banks through a noncreditor, as intermediary.

As you know, a creditor may arrange for the extension of purpose credit only to the extent permitted by section 220.7(a) of Regulation T:

"A creditor may arrange for the extension or maintenance of credit to or for any customer of such creditor by any person upon the same terms and conditions as those upon which the creditor, under the provisions of this part, may himself extend or maintain such credit to such customer, but only upon such terms and conditions, except that this limitation shall not apply with respect to the arranging by a creditor for a bank subject to Part 221 of this chapter (Regulation U) to extend or maintain credit on registered securities or exempted securities."

Mr. Robert Block

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In the cases you describe, the security involved is a registered bond, hence a registered security, so that the exception clause of the section quoted above is applicable, and a creditor may arrange for credit to be extended by a bank subject to Regulation U, on terms more favorable than he could himself offer, against collateral of the kind described in your letter.

The reason why this is possible is that section 7(d)(D) of the Securities Exchange Act of 1934 has the effect of exempting banks from credit regulation respecting loans made on non-equity securities, including, of course, registered bonds. As a result, while Regulation T limits purpose credit extended by creditors on registered bonds, Regulation U does not so limit banks, and the integration of section 7(a) of Regulation T and Regulation U creates a situation where a creditor can arrange credit on terms more favorable than he himself would be permitted to extend or maintain under section 8 of Regulation T.

Accordingly, the situation designated (1), a creditor arranging purpose credit with a bank subject to Regulation U, on terms more favorable than permitted by section 8 of Regulation T, is in conformity with the regulation.

The remaining two situations in your inquiry involve essentially the same transaction, but with the addition of a creditor in (2) and a noncreditor in (3) as intermediary. The fact that the intermediary is a creditor, subject to Regulation T, should of itself have no effect on the nature of the transaction since the arrangement, by creditors, of this type of credit is permissible. The remaining issue - can a creditor arrange indirectly, through an intermediary, credit that he can arrange directly - is central to both situations and they may, therefore, be treated together.

The Board is aware of no reason to prevent a creditor from engaging an agent to perform a task that he could perform himself. Section 17 of the Restatement of the Law of Agency states: ". . . for most purposes, a person may properly create a power in an agent to achieve the same legal consequences by the performance of an act as if he himself had personally acted", unless some policy or principle makes the act non-delegable. In this case, neither the statute nor the regulation expresses a policy restricting the arrangement of credit to the creditor, personally.

Accordingly, in the cases indicated as (2) and (3) the Board considers there is no violation of Regulation T when a creditor arranges credit to purchase non-exempt registered bonds with banks subject to Regulation U, through a creditor or noncreditor intermediary.

Very truly yours,
(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 6
10/21/65



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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 21, 1965

Board of Directors,
Glenns Ferry Bank, Limited,
Glenns Ferry, Idaho.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Glenns Ferry Bank, Limited, Glenns Ferry, Idaho, of a branch in Cambridge, Idaho, 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.)

TELEGRAM
LEASED WIRE SERVICE

Item No. 7
10/21/65

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

October 21, 1965.

NOSKER - RICHMOND

RE YOUR TELEPHONE REQUEST OF MR. SOLOMON FOR BOARD AUTHORIZATION FOR ACCESS BY AGENT OF FEDERAL BUREAU OF INVESTIGATION TO THE LAST THREE REPORTS OF EXAMINATION OF BANK OF DUBLIN, INC., DUBLIN, VIRGINIA, AND OFFICERS QUESTIONNAIRES OBTAINED IN CONNECTION WITH THOSE EXAMINATIONS. BOARD AUTHORIZES YOUR BANK TO GRANT FBI ACCESS TO BOTH OPEN AND CONFIDENTIAL SECTIONS OF THESE REPORTS AND ALSO TO OFFICERS QUESTIONNAIRES. AUTHORIZATION HEREIN GRANTS PERMISSION FOR FBI TO MAKE SUITABLE EXCERPTS OF REPORTS OF EXAMINATION AND TO BE ALLOWED TO RETAIN COPIES OF QUESTIONNAIRES. AUTHORIZATION DOES NOT CONTEMPLATE USE OF ANY MATERIALS FURNISHED FBI EITHER BEFORE FEDERAL GRAND JURY OR IN ANY TRIAL OF ANY CASE WITHOUT FURTHER SPECIFIC AUTHORIZATION BY BOARD. SUGGEST FBI ACCESS HEREIN AUTHORIZED BE HAD IN PRESENCE OF AUTHORIZED REPRESENTATIVE OF YOUR BANK.

(Signed) Merritt Sherman

SHERMAN