FR 609

Minutes for November 3, 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

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Minutes of the Board of Governors of the Federal Reserve System on Wednesday, November 3, 1965. The Board met in the Board Room at 9:30 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Senior Adviser to the Board and Director, Division of International Finance
Mr. Johnson, Director, Division of Personnel Administration
Mr. Sprecher, Assistant Director, Division of Personnel Administration

Salaries of Presidents and First Vice Presidents and certain related matters (Items 1-6). There had been distributed a memorandum dated October 28, 1965, from Governor Mitchell, as Chairman of the Board's Committee on Organization, Compensation, and Building Plans, in which it was recalled that during consideration of salary proposals for the Presidents and First Vice Presidents of the Federal Reserve Banks for the calendar year 1965 the Board decided that a review should be made of the guidelines that had been in effect since October 1962. On April 22, 1965, the Board concurred with the suggestion in a memorandum from the Committee of the same date that action on the guidelines be deferred pending retention of outside consultants to obtain information on community salary levels for positions of responsibility comparable

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with selected positions at Reserve Banks. It was believed that on the basis of the consultants' study the Board would be better prepared to establish the base for salary ranges for First Vice Presidents and to consider appropriate ranges for Reserve Bank officers' salaries. Subsequently, consultants were retained to obtain information on community salary levels at New York and Dallas. McKinsey and Company conducted the New York survey, while Booz, Allen & Hamilton made the survey at Dallas.

On the basis of the consultants' reports, and in light of experience with proposals for salaries in 1966 of Reserve Bank officers other than Presidents and First Vice Presidents, the Board's Committee submitted the following recommendations, all changes to be effective January 1, 1966:

1. Revise the salary structure of the Presidents as follows:

| | Current | | Suggested | |
|---|---|---|---|---|
| | Minimum | Maximum | Minimum | Maximum |
| New York | $50,000 | $75,000 | No change | |
| Chicago and San Francisco | 40,000 | 60,000 | No change | |
| Other nine Banks | 30,000 | 45,000 | $35,000 | $50,000 |

2. Set the maximum increase for Presidents at $7,500 for New York, $6,000 for Chicago and San Francisco, and $5,000 for the other nine Banks. (With the exception of Chicago and San Francisco, the proposed guidelines were unchanged from the current ones. For those two Banks, the maximum increase would be reduced from $7,500 to $6,000. Although maximum increases of $7,500 for Presidents had been available since 1963, neither Chicago nor San Francisco had requested an increase of over $5,000.)

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3. Revise the ranges of salary structures applicable to the First Vice Presidents as follows:

| | Current | | Suggested | |
|---|---|---|---|---|
| | Minimum | Maximum | Minimum | Maximum |
| New York | $30,000 | $45,000 | $37,500 | $47,500 |
| Chicago and San Francisco | 27,500 | 35,000 | 30,000 | 38,000 |
| Other nine Banks | 25,000 | 30,000 | 27,500 | 35,500 |

4. Set the maximum increase for First Vice Presidents at $5,000 for New York and $4,000 for the remaining offices. (The current maximum increase was $2,500, applicable to all Banks.)

5. Reaffirm the guidelines for frequency of salary increases for Presidents and First Vice Presidents. (These guidelines provided that increases could be initiated two years after appointment, and at three-year intervals thereafter.)

6. Provide that the revised maximum increases be applicable to salaries of current First Vice Presidents (except any scheduled for retirement when their terms ended February 28, 1966).

7. Advise the Chairman of each Reserve Bank of the revised guidelines and provide him with a schedule of salary progression permissible under the guidelines for incumbent Presidents and First Vice Presidents.

Attached to the memorandum were schedules showing permissible increases for Presidents and First Vice Presidents under the suggested revised guidelines as of January 1, 1966. Among other things, these schedules proposed that First Vice Presidents Treiber (New York) and Coldwell (Dallas), who received increases of $2,500 each in 1965, could receive increases of $2,500 and $1,500, respectively, as of January 1, 1966, to conform to the difference between the old and new permissible rates of increase for First Vice Presidents at the Banks concerned. Also,

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1965 would be considered the new starting date for the interval between future adjustments in those cases.

Also submitted with the memorandum was a form of letter that might be sent to the Chairman of each Federal Reserve Bank setting forth the new ranges and maximum increases for Presidents and First Vice Presidents and showing the permissible salary progression to range maximums for the President and First Vice President of each individual Bank based on present incumbencies.

Governor Mitchell, in a statement concerning the recommendations of the Board's Committee, reviewed the results of the studies made by consultants at New York and Dallas. The Dallas survey, he said, indicated that the Reserve Bank was competitive with the local market in all officers' salary ranges and in the lower ranges was somewhat high. The New York survey showed that the present ranges for Groups C, D, and E were fully competitive or a little high, but that the Group B range was a little low and the Group A range was definitely low. However, the Board's Committee noted the headroom available under the present officers' salary structures and found that there was latitude at the Federal Reserve Banks, including New York, in all salary groups. Few officers were presently close to the ceiling at any Bank in any group. The Committee's conclusion was that at present it was not necessary to revise ranges for the officer salary groups.

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Then, Governor Mitchell continued, the Committee had to decide what to do about the salaries of Presidents and First Vice Presidents. It wanted to link the salaries of such officers to those of other officers at the Federal Reserve Banks. It was proposed that the minimum salary for First Vice Presidents be the maximum of the range for Group A officers at the respective Banks and that the maximum of the range for Presidents be roughly double the maximum for Group A officers. This standard worked out well for New York, Chicago, and San Francisco, but at other Reserve Banks the range for the President was somewhat low, and the Committee therefore suggested increases in the ranges for those Presidents to bring about the desired relationship. The Committee also felt that maximum increases for Presidents should be about 10 per cent of maximum salary. As to the First Vice Presidents, the principle that the minimum salary should be the same as the maximum for Group A officers required some upward adjustment of the salary ranges for First Vice Presidents. As to the spread of the ranges, the Committee's recommendations reflected its view that this position did not necessarily require the breadth of ability and experience that would be desirable in the case of Presidents or in the case of Group A officers whose work was in a highly technical or specialized field.

In the discussion that followed, question was raised by Governor Daane whether it was completely clear that the maximum for Presidents should be roughly double the maximum for Group A officers. His related

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question was whether such a scheme provided enough latitude to attract and retain competent officers at the Group A level, particularly in technical areas such as research. The comments made in response dealt with the qualities expected to be possessed by the President of a Reserve Bank as the principal representative of and spokesman for the Federal Reserve System in his area. It was noted, also, that the proposed ranges were not out of line with salaries available at commercial banks in the respective cities. Governor Mitchell commented, on the Group A officers, that at New York the Committee expected it would be necessary to revise the range upward within a year or two. This might be true also at other Reserve Banks, but for the present a substantial amount of headroom was available.

At the conclusion of the discussion the recommendations of the Committee with respect to salaries for Presidents and First Vice Presidents were approved unanimously. Attached to these minutes as Items 1, 2, and 3 are copies of letters subsequently sent to the Chairmen of the Federal Reserve Banks of Boston, New York, and Dallas reflecting adoption of these recommendations. The letters sent to the Chairmen of the remaining Banks were similar to the Boston letter except that the attached schedules of permissible salary progression reflected the situations at the particular Banks. Copies of the schedules sent with the letters to the respective Banks are attached under Item No. 4.

Pursuant to another Committee recommendation, as reflected in its memorandum, the Board also approved unanimously the sending of a

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letter to the Federal Reserve Bank of New York indicating that the Board would not be receptive to a formal request for revision of officers' salary ranges at that Bank along the lines that had been submitted informally. Such a letter would also confirm the Committee's decision that three proposed salary increases for officers for 1966 should be eliminated. A copy of the letter sent to the Reserve Bank pursuant to this action is attached as Item No. 5.

Reference also was made in the Committee's memorandum to the request of the Cleveland Bank for approval of an increase in the annual salary of President Hickman from $40,000 to $45,000, effective January 1, 1966. Mr. Hickman's salary record since his appointment as President of the Bank on May 1, 1963, was reviewed in the memorandum, along with the relevance of this record to the question whether Mr. Hickman would be eligible, under the Board's guidelines, for an increase to $45,000 in 1966 or 1967. A comparison with salaries of other Presidents also was presented.

In discussion the possibility of making exceptions to the guidelines in the case of certain other Presidents was explored but was rejected on the ground that this would only compound the problem. The result of the discussion was that the Board approved unanimously the payment of salary to President Hickman at the rate of $45,000 per annum effective January 1, 1966. A copy of the letter sent to Chairman Hall reflecting this action is attached as Item No. 6.

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During the foregoing discussion Governor Maisel raised the question whether consideration had ever been given by the Board to the possibility of establishing a maximum length of service for Reserve Bank Presidents. Governor Maisel said that while he had no specific question at this time, reference to the term of office for a Board member might suggest a maximum of three five-year terms for a Reserve Bank President. The answer given was that to the best recollection of those present the subject had not been considered by the Board, and Governor Maisel then suggested that it might be worthy of exploration at some appropriate time.

Messrs. Johnson and Sprecher then withdrew from the meeting and the following entered the room:

Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Associate General Counsel
Messrs. O'Connell and Hooff, Assistant General Counsel
Mr. Smith, Associate Adviser, Division of Research and Statistics
Mr. Sammons, Associate Director, Division of International Finance
Messrs. Goodman, Leavitt, and Thompson, Assistant Directors, Division of Examinations
Mrs. Semia, Technical Assistant, Office of the Secretary
Messrs. Heyde, Shuter, Smith, and Young, and Miss Hart of the Legal Division
Mr. Lawrence, Economist, Division of Research and Statistics
Messrs. Burton, Donovan, Egertson, Lyon, Maguire, Noory, Poundstone, and Rumbarger of the Division of Examinations

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

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Item No.

Letter to Manufacturers Hanover Trust Company, New York, New York, approving the establishment of a branch at 130 Stuyvesant Place, Borough of Richmond. 7

Letter to Bank of Warwick, Newport News, Virginia, approving the establishment of a branch at Warwick Boulevard and Beechmont Drive. 8

Letter to The Union Savings & Trust Co., Warren, Ohio, approving the establishment of a branch at Liberty and Belmont Avenues, Liberty Township. 9

Letter to Ludington State Bank, Ludington, Michigan, approving the establishment of a branch at 5860 East Ludington Avenue, Pere Marquette Township. 10

Letter to Chase International Investment Corporation, New York, New York, granting permission to purchase shares of Interamericana de Arrendamientos, S. A., Mexico, D. F. 11

Report on competitive factors (Columbia-Lexington, South Carolina). After a discussion during which a revision of the proposed conclusion was 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 The Bank of Lexington, Lexington, South Carolina, into The First Commercial National Bank of South Carolina, Columbia, South Carolina. In the form in which approved, the conclusion read as follows:

> While consummation of the proposed merger of The First Commercial National Bank of South Carolina, Columbia, and The Bank of Lexington, Lexington, would eliminate some competition and further the trend in South Carolina toward concentration of banking resources, in view of the entrance of a new bank in Lexington, it is unlikely that the effect of the transaction on competition in Lexington would be adverse.

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Requests of Chase Manhattan Bank (Item No. 12). There had been distributed a memorandum dated November 1, 1965, from the Legal Division stating that The Chase Manhattan Bank (National Association), New York, New York, proposed to acquire and hold, directly or indirectly, not less than 80 per cent of the outstanding shares of Liberty National Bank and Trust Company, Buffalo, New York, the acquisition to be accomplished through an exchange of Chase Manhattan's shares for those of Liberty National. Chase Manhattan had requested (1) a determination by the Board that this transaction would not cause Chase to be a "holding company affiliate" under section 2(c) of the Banking Act of 1933, i.e., a "section 301" determination, or (2) if the Board should determine otherwise, a voting permit under section 5144 of the Revised Statutes entitling Chase to vote the stock of Liberty. The memorandum contained an analysis of pertinent law and circumstances and stated the Legal Division's recommendation that the Board deny both the request for a section 301 determination and the request for a voting permit.

It was the opinion of the Division that:

(1) Consummation of the proposed transaction would cause Chase to be engaged as a business in holding bank stocks or in managing or controlling a bank and the Board could not, therefore, make the requested section 301 determination that would exempt Chase from the definition of a holding company affiliate and from the necessity of obtaining a voting permit in order to vote the stock of Liberty National;

(2)(a) In determining whether the granting of a voting permit would be in the public interest, the Board could consider whether the proposed transaction would violate any provision of the National Bank Act and could deny the request if it determined that such a violation would result;

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(b) The transaction would violate section 5136 of the Revised Statutes, prohibiting the purchase of corporate stocks by national banks, and section 5155 of the Revised Statutes, regarding the establishment of branches by national banks, and would therefore be contrary to the public interest;

(c) Whether or not the transaction would violate specific provisions of the National Bank Act, it would negate the purposes of Congress with respect to (A) limitations on the geographic expansion of the operations of a national bank, (B) regulation by the Comptroller of the Currency of the operations of national banks, and (C) equalization of branch operations of national and State banks; and for these reasons the transaction would be contrary to the public interest; and

(3) The question whether the transaction would violate section 7 of the Clayton Antitrust Act could not be determined in the absence of complete data as to its competitive effect, which could be developed only through a full-scale investigation.

The memorandum stated that the Legal Division's conclusions and recommendation were in general accord with the views expressed by the Federal Reserve Bank of New York in a letter of October 29, 1965, although the Bank did not comment on the question relating to section 5155 of the Revised Statutes or on the Legal Division's points (2)(a) and (2)(c).

Among the aspects of the matter discussed in the memorandum was the fact that although the recommended denial would, in the Legal Division's opinion, not conflict with the Board's policy of granting section 301 determinations in all "one-bank" cases, except when extraordinary circumstances were present, denial would represent a reversal of the attitude the Board had previously taken, with some exceptions, toward requests for section 301 determinations in which the holding

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company was itself a bank. Determinations had been granted in many such cases, the first in 1935 and the most recent earlier this year. The 1935 precedent was apparently based on the majority view in the Board's Legal Division at that time that section 301 did not expressly preclude the granting of determinations to a holding company affiliate that happened to be a bank and that, in fact, little useful purpose would be served by denying a section 301 request and requiring a voting permit in such a case because both the applicant holding company affiliate and its subsidiary bank were already subject to supervision under either State or Federal law. One member of the Legal Division at that time strongly expressed a contrary view on the ground that section 301 was intended to cover only cases in which the principal activities of the holding company affiliate were outside the banking field and its control of a bank or banks was merely incidental to its nonbanking activities. The Board's Legal Division today concurred with the views expressed by the dissenting member of the Division in 1935. The Senate Committee Report on section 301 clearly indicated that the exemptive provision was intended to take care of "accidental" holding company affiliates, such as churches, department stores, and lumber companies, whose principal activities were entirely outside the banking field. Where the applicant holding company affiliate was itself a bank and owned all or a majority of the stock of another bank, it was difficult to conclude that the applicant was not engaged as a business in holding bank stock or managing or controlling banks.

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The memorandum stated that, if the Board concurred in the Legal Division's conclusions, it would seem desirable to afford Chase an opportunity to present arguments to the contrary before the Board took final action. Accordingly, it was further recommended that a letter in the form of a draft attached to the memorandum be sent to Chase, enumerating the reasons for which the Board was disposed to deny the requests and affording Chase an opportunity to submit further arguments before final action was taken.

There had also been distributed a memorandum dated November 2, 1965, from the Division of Examinations, discussing the request for a section 301 determination especially from the point of view of reversal of the favorable attitude the Board had taken in many previous cases in which the applicant was itself a bank. It was pointed out that in a memorandum of January 8, 1965, reviewing the general question of section 301 determinations, the Division of Examinations had recommended, among other things, that the Board continue its "one-bank policy." On balance, for reasons set out in the memorandum, it appeared to the Division that although denial in the present case would represent a reversal of the previous decisions involving banks that owned or controlled other banks, such denial would not be inconsistent with the Division's January recommendation. In regard to the alternate request for a voting permit, the Division was of the opinion that, although there appeared to be no reason to deny the request on the basis of the factors specified in the

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statute for consideration, it could appropriately be denied on the basis of the public interest on the ground that the proposed transactions would involve violations of sections 5136 and 5155 of the Revised Statutes.

At the Board's request Mr. Hackley summarized the history of the Board's administration of the statutory provisions, observing among other things that a section 301 determination represented an exemption made by the law itself on the basis of a factual determination made by the Board, whereas the law gave the Board broad discretion, according to the needs of the public interest, in determining whether or not to grant voting permits. Chase Manhattan had not presented detailed arguments, but had made three statements: that the proposed transaction would not cause it to be engaged as a business in owning or controlling banks; that the law referred to the business of holding the stock of, or managing or controlling, "banks" in a plural sense, and that in this instance there would be only one controlled bank; and that both Chase and Liberty National were subject to examination by a Federal bank supervisory authority and therefore the purposes of the Banking Act of 1933 would be accomplished without requiring Chase to be classified as a holding company affiliate.

Mr. Hackley reviewed the reasons, which had also been set out in the memorandum, for which the Legal Division regarded these statements as invalid. Although the section 301 request could be denied solely on the grounds that the proposed transaction would involve violations of

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law, that ground might be subject to question; moreover, it was not necessary to rely on it. However, those violations were of unquestioned importance to the Board's decision in regard to the request for a voting permit. An existing law indicated what the Congress regarded as necessary to the public interest in a given field, and any proposed transaction that would violate that law could be said to be adverse to the public interest. The Supreme Court's decision this year in Whitney National Bank v. Bank of New Orleans lent support to the right of the Board to deny a voting permit if the underlying transaction would violate provisions of Federal law.

Another question related to the voting permit request, Mr. Hackley continued, was whether the Board would be bound by the position of the Comptroller of the Currency. (It was understood that Chase expected to obtain a ruling from the Comptroller of the Currency that the proposed transaction would not violate provisions of the National Bank Act.) The Legal Division believed that this question should be answered in the negative, and it appeared that this view was supported by the decision in the Whitney case, which based the right of the Board to make an independent determination as to whether a holding company transaction would violate Federal law largely on the ground that the Bank Holding Company Act placed all holding company proposals under the jurisdiction of the Board rather than that of the Comptroller. Moreover, section 5144 of the Revised Statutes gave the Board power to revoke a voting permit if

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at any time it appeared to the Board that violation of the Banking Act of 1933 had occurred.

Briefly, it seemed to the Legal Division that the proposed transaction, even in the form of an exchange of stock, would constitute a purchase by Chase of corporate stock for its own account in direct violation of the prohibition in section 5136. Also, and relying on the decision in the Whitney case by the District of Columbia Circuit of the United States Court of Appeals, it appeared that the proposed transaction would constitute the establishment of a branch by Chase Manhattan without compliance with the requirements of section 5155. It seemed clear that Chase Manhattan would be doing business at a place other than its head office or at a branch duly authorized and approved as such by the Comptroller under section 5155. In these circumstances, piercing the corporate veil seemed amply justified, in that the separate corporate existence of Liberty National would be utilized to defeat public policy and to enable the parent organization, Chase Manhattan, to accomplish indirectly what it could not accomplish directly, namely, to control and principally own banking offices in up-State New York.

The Legal Division concluded that because the effect of the transaction would be to violate both sections 5136 and 5155, it would not be in the public interest for the Board to grant the requested voting permit. Even apart from these technical violations of law, however, it seemed to the Division that the Board could deny the voting permit

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request on the ground that it would negate the policies of Congress with respect to the operations of national banks, particularly the statutory provisions relating to the transaction of business in places other than the head office or duly approved branches. If a national bank could acquire a controlling interest in another bank, it could easily circumvent these restrictions of Federal law. By the device of maintaining the separate corporate identity of a bank in which it had a controlling interest, a national bank could in effect establish branches at any place in the State in which it was located or even in other States.

After further comments, Mr. Hackley concluded his remarks by reiterating the suggestion in the memorandum that, if the Board was disposed to agree with the Division's conclusions, it afford Chase Manhattan an opportunity to submit such further information bearing upon its requests as it might wish. He mentioned also that it was apparent that the problems described could be avoided by Chase Manhattan if Liberty National should become a State nonmember bank. The matter would thus be removed from the Board's jurisdiction.

In response to questions, it was brought out that a reversal of the Board's previous position did not mean that the Board should revoke previous determinations granted in situations where the applicant was itself a bank; the reversal would reflect a changed interpretation rather than a change in the factual situations on which the Board had ruled. The question was not whether the Board could, but whether it should revoke the

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previous determinations. There was no question as to the Board's power to do so; the law gave the Board the power of revocation, and each of the determinations included a reservation of the right to revoke if there should be a change in facts. In the absence of changed facts, however, since the applicants had relied on a ruling by the Board, equity would seem to suggest that the determinations be allowed to stand.

Governor Maisel asked if the recommended position would not be tantamount to saying that no bank could own a holding company; that if a bank could not own corporate stock, it could not own holding company stock; and that an owned bank constituted a branch operation by the owner bank.

Mr. Hexter pointed out that sections 5136 and 5155 of the Revised Statutes applied only to national and member State banks. Nonmember banks, which were not covered by the restrictions in those sections in regard to holding corporate stock and operation of branches, could own holding company stock. If a nonmember bank elected to purchase the stock of a holding company that might in turn hold bank stocks, the Board would not have jurisdiction. The matter would be subject only to State and not to Federal laws.

Question was raised whether there were not cases in which member banks owned holding companies, and in response the circumstances were reviewed relating to Citizens and Southern National Bank, Savannah, Georgia, and Trust Company of Georgia, Atlanta, Georgia.

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In reply to a question as to the relevance to the Chase application of section 7 of the Clayton Act, it was indicated that the Attorney General had power to seek an injunction to restrain or prevent the Chase transaction, whereas the Board's responsibility would come into play only after the Liberty National stock had been acquired and it appeared that a violation of law had occurred.

Governor Mitchell referred to a statement in the draft letter to Chase Manhattan that "the acquisition by a national bank of a majority of the stock of another bank would enable the national bank to transact, through a subsidiary, banking business in its own State, or in other States, at places at which it may not transact a business through branches; and such expansion of its operations would not require the prior approval of the Comptroller." He asked if this language would not subject the Board to an assertion of ignoring the circumstance that in New York State there was a legal way of, in fact, conducting a Statewide branch banking business.

Mr. Hackley replied that although both the Congress and New York State had recognized the legality of the device under which a holding company could, in effect, operate a branch banking system, the Congress, in passing the Bank Holding Company Act, had distinguished between branch banking and holding company operations. The Legal Division believed that one of the soundest arguments in support of its recommended position was the fact that a transaction such as proposed by Chase Manhattan would

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enable a national bank to evade the intent of Congress by buying the controlling interest in stock of another bank.

Mr. Hexter said the purpose was to make clear that if the Chase plan was permissible the result would be that a national bank could conduct a banking business not only through branches in all banking districts of New York State but elsewhere through wholly-owned subsidiaries.

Governor Mitchell observed that this judgment pierced the corporate veil. If that was done, it was necessary to concede that holding company operations were a method of branching, and that both Federal and New York State statutes permitted the use of the holding company device. On policy grounds, he would not want to see the Board take the position that Statewide branching was hostile to the public interest. The problem was difficult, in his opinion, because it would be desirable to avoid implying either that branch banking was hostile to the public interest or that Chase's proposal was hostile to the public interest because it employed the holding company form.

Mr. Hackley expressed the view that the critical point was that both Congress and New York State had recognized the legitimacy of the holding company device, but only subject to certain restrictions. Expansion must have the approval of both the Board and the State.

Governor Maisel commented that the language in the draft letter mentioned by Governor Mitchell amounted to saying that if the corporate

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veil was pierced upward the proposed transaction would not constitute branch banking but if the veil was pierced downward if would constitute branch banking.

Mr. Hexter remarked that from an economic point of view Governor Maisel's observation was correct. A holding company with subsidiaries was substantially similar to a bank with a number of branches. However, the point here was that it was necessary to apply the Congressional definition of the public interest, as expressed in legislation. Congress had said, in effect, that it was permissible for holding companies to have subsidiary banks throughout New York State, but that it was not permissible for a national bank to have offices throughout the State. Whether or not one agreed, this was the national policy stated by Congress, and it was the Board's duty to carry out the law.

During further discussion, various editorial changes were suggested in regard to the passage mentioned by Governor Mitchell as well as to meet points raised by members of the Board in other respects.

Governor Robertson raised the question whether there was any need to entertain further submissions by Chase Manhattan; to him the issue was clear cut.

Mr. Hackley said the Legal Division recommended giving Chase an opportunity to submit a further memorandum partly because denial of the section 301 request would represent reversal, in a certain respect, of past policy. Also, if the matter should lead to litigation the Board's

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record would be better if it could be shown that such an opportunity had been granted, particularly since there was some evidence that Chase had anticipated no difficulty in obtaining the requested section 301 determination.

Chairman Martin commented that he had found the problem quite complicated. It seemed to him that the door should not be closed to further argument until any possible doubt had been dispelled.

In response to a question, Mr. Hackley said that only a written submission by Chase was contemplated, although he assumed the Board would have no objection if Chase asked that its representatives be allowed to confer with the Board's staff. Members of the Board expressed agreement.

At the conclusion of the discussion, unanimous approval was given to a letter to Chase Manhattan in the form attached as Item No. 12, with a copy to the Comptroller of the Currency.

Messrs. Cardon and Hexter then withdrew from the meeting.

Request for section 301 determination. There had been distributed a memorandum dated November 1, 1965, from the Division of Examinations recommending approval of the application of Zions Utah Bancorporation, Salt Lake City, Utah, for a section 301 determination exempting it from all holding company affiliate requirements except those in section 23A of the Federal Reserve Act. In addition to owning the majority of shares of Zions First National Bank, Salt Lake City, applicant controlled companies engaged in businesses such as real estate, insurance, and the leasing of equipment; it also controlled a savings and loan association.

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The Division's favorable recommendation was based on the Board's general policy of granting determinations in one-bank cases in the absence of extraordinary circumstances. The Division's recommendation was based also on the assumption that actions would have been taken by Lockhart Corporation, prior to its merger into the applicant, to eliminate its subsidiary industrial loan companies and its Colorado industrial bank from status as banks as defined in section 2(c) of the Bank Holding Company Act (the Lockhart Corporation matter was the subject of Board action at the meeting on October 27, 1965).

Mr. Thompson commented that this was an application that normally would be held awaiting the over-all review of the Board's one-bank policy with respect to section 301 determinations. However, an attorney for the applicant had asked if it might be possible for the Board to consider the application; if the Board should grant the determination, the applicant could so state in a prospectus it was preparing. The attorney had also indicated, however, that if no action were taken by the Board the inability to mention such a determination in the prospectus was not of crucial importance.

Discussion disclosed a consensus in favor of holding the application along with others awaiting the over-all review.

Mr. Hooff then withdrew from the meeting.

Applications of Barnett National Securities Corporation. A memorandum from the Division of Examinations dated October 28, 1965, and other

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pertinent papers had been distributed in connection with an application by Barnett National Securities Corporation, Jacksonville, Florida, to acquire 80 per cent or more of the voting shares of Barnett First National Bank of Jacksonville, Jacksonville, Florida. The Division's recommendation was favorable.

Following comments by Mr. Thompson in supplementation of the material that had been distributed, the application was approved unanimously, with the understanding that an order and statement reflecting this decision would be drafted for the Board's consideration.

There had also been distributed a second memorandum dated October 28, 1965, from the Division of Examinations, with other papers, pertinent to the application of Barnett National Securities Corporation to acquire control of First National Beach Bank, Jacksonville Beach, Florida. The Division recommended approval.

After comments by Mr. Thompson summarizing the distributed material, Mr. O'Connell drew comparisons between the present case and the application by Barnett to acquire control of The San Jose Barnett Bank, Jacksonville, which the Board approved in 1964. The San Jose application involved a proposed new bank, and the Board considered that the granting of a charter by the State authorities weighed toward approval under the convenience and needs factor. The present application, however, contemplated eliminating an existing independent banking unit. In the San Jose case the concentration figures were not greatly different from those

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involved in the present application, but the time might be coming when the Board would consider that a line must be drawn against further acquisitions by the holding company.

In view of the position occupied by three large Florida banking groups, Mr. O'Connell continued, the present application might be studied also in terms of the Pipestone case (the application of Northwest Bancorporation, Minneapolis, to acquire First National Bank of Pipestone, Minnesota, denied by the Board in 1961). On petition by the applicant for reversal of the Board's decision, the United States Court of Appeals had upheld the Board's rationale in considering not only the degree of concentration in the applicant holding company, but also the aggregate control of banking resources by all holding companies.

Another point to which the Board might wish to give special attention was the elimination of potential competition, Mr. O'Connell said. Ostensibly, the Jacksonville Beach bank competed with the banks in Jacksonville only to a minimal extent. However, there was a great deal of commuting between the two communities. If the intervening undeveloped land should be built up, there could gradually emerge a single economic unit.

The members of the Board then expressed their views, and Governor Robertson said he would disapprove the application. It was hard to believe there was no real competition between the Jacksonville banks and the Beach Bank, with so many people commuting between the two areas,

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and the potential for additional competition as the intervening territory became more and more developed would be foreclosed by approval of the application. Also, he doubted the validity of the claims that had been made of benefits to the public under the convenience and needs factor. For example, the addition of trust facilities in an area like Jacksonville Beach would hardly seem to constitute a strong benefit to the public. Moreover, in view of the large concentration in three banking groups, he believed it had been appropriate to cite the Pipestone case, where the degree of concentration had been less than the aggregate here involved. The present proposal would eliminate one independent source of banking facilities, and it seemed to him that it should be turned down.

Governor Shepardson felt that it was difficult to define a dividing line. From the standpoint of concentration, since the Beach was essentially a commuter community and people there had a number of alternative sources of banking facilities in Jacksonville, it did not seem that they would suffer a great deal from elimination of the Beach Bank as an independent unit. The question seemed to resolve into determining the point at which holding companies became too dominant, and he was inclined to think that this might be a point at which to draw the line.

Governor Mitchell remarked that although this appeared to be a close case he would disapprove because of the weakness of considerations

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under the banking factors and the convenience and needs factor on the side of approval. It seemed clear that the competitive factor was adverse, although perhaps not strongly adverse. While he would disapprove, he hoped that the Pipestone case was not made a part of the reason for denial. In his view an adding together of the banking resources controlled by several holding companies flew in the face of the fact that there was competition among holding companies just as there was competition among banks.

Governor Daane expressed the view that the case was close. On balance, his first inclination had been to go along with the Division's recommendation of approval. On further thought, however, and in light of the discussion at this meeting, he leaned toward disapproval.

Governor Maisel stated that he would disapprove because it seemed to him the few positive factors were outweighed by the negative factors. Among other things, there was a degree of direct competition that would be eliminated. He was not entirely clear as to the relevance of the principle upheld by the Court of Appeals in the Pipestone case; the telling fact was not that the three principal banking groups in Florida were of a certain size but that there were only three, and the present proposal would diminish the number of alternatives.

Governor Balderston and Chairman Martin stated that they also would disapprove.

The application of Barnett National Securities Corporation to acquire First National Beach Bank, Jacksonville Beach, was thereupon

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denied by unanimous vote. It was understood that an order and statement reflecting this decision would be drafted for the Board's consideration.

Applications of Brenton Companies. There had been distributed a memorandum dated October 28, 1965, with other related material, regarding the applications of Brenton Companies, Inc., Des Moines, Iowa, to acquire at least 80 per cent of the outstanding voting shares of Dallas County State Bank, Adel, Iowa, and The Palo Alto County State Bank, Emmetsburg, Iowa. The Division recommended that both applications be approved.

At the Board's request Mr. Thompson summarized the pertinent facts and the reasons underlying the Division's favorable recommendations, his comments being based on the information that had been distributed.

The applications were then approved unanimously, with the understanding that orders and a statement reflecting this decision would be prepared for the Board's consideration.

Messrs. Thompson, Smith, Burton, Donovan, Lyon, Noory, and Rumbarger then withdrew from the meeting.

Application of United California Bank. There had been distributed a memorandum dated October 27, 1965, from the Division of Examinations, with other pertinent papers, relating to the application of United California Bank, Los Angeles, California, to merge into itself Feather River National Bank, Oroville, California. In summarizing the basis for its favorable recommendation, the Division stated that there would be

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only a minute increase in the concentration of banking resources in a few large banks in the State by consummation of the merger, while no significant competition would be eliminated. Feather River National's liquidity problem, developing loan problems, and temporary management indicated that prospects for the institution were not favorable. In view of these latter factors, it was believed the banking needs of the Oroville area would be better served by United California. The Federal Deposit Insurance Corporation had concluded that the effect of the proposed transaction on competition would be favorable, and the Comptroller of the Currency's conclusion was that United California's competitive position in the Oroville district would not be changed. The view of the Department of Justice, based on the increase of concentration, was adverse.

After summary comments by Mr. Egertson, the staff elaborated on certain points in the distributed material in response to questions by members of the Board.

The Board members then expressed their views, and Governor Robertson said that he would disapprove. He agreed with the analysis by the Department of Justice. (The Department had stated, in part, that "As the figures heretofore presented show, California is gripped by a high degree of concentration in its commercial banking system. United California Bank bears a major responsibility for this concentration and is presently an important factor in this concentration. The presently proposed merger would add to that concentration. United California Bank's

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unceasing merger activity, the step-by-step absorption of small banks will necessarily result in a situation where only a few mammoth statewide banking systems can survive in California. Such a banking structure is the very antithesis of a competitive market. We do not read the proposed justification of this merger as given in the application as being sufficiently substantial to outweigh these considerations.") Governor Robertson concurred in the view that the proposal was one more step toward undue concentration. He could not see that the position of Feather River National required a salvage operation. It was not the only bank that was heavily loaned, and the fact that the bank was heavily loaned indicated that it had been stretching out to meet the needs of the community. The allegation of a severe management problem had been advanced in many merger proposals.

Governor Shepardson stated that he would approve. He thought Feather River National's reaching out denoted speculation more than an attempt to meet community needs, and he believed there was in fact a management problem. He was not unaware of the problem of banking concentration in California. As far as the local situation was concerned, however, he believed the present proposal would bring about an improvement.

Governors Mitchell and Daane indicated that they would approve for the reasons cited by the Division.

Governor Maisel said he would approve, but he called attention to a passage in the competitive factor report of the Department of Justice

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citing a statement made by United California Bank in 1962 to the effect that it had "determined, in order to compete more effectively with Bank of America and Security First National, to adopt a policy of de novo branching, and that upon completion of its two pending merger proposals, i.e., Farmers Bank and First National Bank of Vista, United has no further mergers under consideration or discussion." Governor Maisel asked if there was any way the Board, as a matter separate from the consideration of a particular application, could indicate that it expected United California to adhere to the policy it had declared in 1962.

The essence of the ensuing staff comments was that individual merger and bank holding company applications were considered on their merits, that an attempt to bind an institution to an over-all policy might be regarded as having hostile overtones, that there was no precedent, as far as the staff could readily recall, but that a suggestion that each subsequent application would need stronger support for approval could be implicit in the terms of the Board's statement if the Board so desired. It was noted that the statement cited by the Department of Justice probably should not have been construed in terms of a promise for all time in the future but rather an indication that at the particular time United California had "no further mergers under consideration or discussion."

Governor Mitchell stated that in his judgment the banking factors weighed heavily in the present case. He doubted that the Board would want to ask an applicant to commit itself indefinitely to a policy based

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primarily on the concentration factor; there might be cases in which the Board would find that banking factors carried a great deal of weight.

Governor Balderston and Chairman Martin said that they would approve the application.

The application of United California Bank to merge with Feather River National Bank was thereupon approved, Governor Robertson dissenting. It was understood that an order and statement reflecting this decision would be prepared for the Board's consideration, and that a dissenting statement by Governor Robertson also would be prepared.

All members of the staff then withdrew except Messrs. Sherman, Kenyon, Molony, Fauver, and Hackley, and Mrs. Semia.

Director appointments. It was agreed to ascertain through the Chairmen of the Federal Reserve Banks concerned whether the following persons would accept appointment, if tendered, as Federal Reserve Bank or branch directors for the terms indicated, with the understanding that if it were found that they would accept, the appointments would be made:

Arjay Miller, President, Ford Motor Company, Detroit, Michigan, as a Class C director of the Federal Reserve Bank of Chicago for the three-year term beginning January 1, 1966.

Carl O. Lindeman, Chairman, Pacific Telephone Company, San Francisco, California, as a Class C director of the Federal Reserve Bank of San Francisco for the three-year term beginning January 1, 1966. (If it should be learned that Mr. Lindeman was not available, it was agreed that a similar inquiry should be made with respect to Eugene E. Trefethen, Executive Vice President, Kaiser Industries, Oakland, California.)

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Royden G. Derrick, President, Western Steel Company, as a director of the Salt Lake City Branch of the Federal Reserve Bank of San Francisco for the two-year term beginning January 1, 1966. (If it should be learned that Mr. Derrick was not available, it was agreed that a similar inquiry should be made with respect to James C. Fletcher, President, University of Utah, Salt Lake City, Utah.)

> Secretary's Note: It having been ascertained that Mr. Derrick would accept the Salt Lake City Branch directorship, if tendered, an appointment telegram was sent to him on November 5, 1965.

Frederic S. Hirschler was designated as Chairman and Federal Reserve Agent at the Federal Reserve Bank of San Francisco for the calendar year 1966, with compensation at an amount equal to the fees that would be payable to any other director of the Bank for equivalent time and attendance to official business.

The meeting then recessed and reconvened in the Board Room at 2:30 p.m., with the following in attendance:

Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Robertson
Mr. Shepardson
Mr. Mitchell
Mr. Daane
Mr. Maisel

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Senior Adviser to the Board and Director, Division of International Finance
Mr. Holland, Adviser to the Board
Mr. Solomon, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board

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Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research and Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Associate General Counsel
Mr. Partee, Associate Director, Division of Research and Statistics
Mr. Dembitz, Associate Adviser, Division of Research and Statistics
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Morgan, Staff Assistant, Board Members' Offices
Mr. Sanders, Senior Attorney, Legal Division

Director appointments. It was agreed to request the Chairman of the Federal Reserve Bank of Kansas City to ascertain whether Cris Dobbins, President and Director, Ideal Cement Company, Denver, Colorado, would accept appointment if tendered as a director of the Denver Branch for the two-year term beginning January 1, 1966, with the understanding that if it were found that he would accept, the appointment would be made.

It was agreed to request the Chairman of the Kansas City Bank also to ascertain whether C. W. Flint, Jr., Chairman of the Board, Flint Steel Company, Tulsa, Oklahoma, would accept appointment if tendered as a director of the Oklahoma City Branch for the two-year term beginning January 1, 1966, with the understanding that if it were found that he would accept, the appointment would be made.

Secretary's Note: It having been ascertained that Mr. Dobbins would accept the appointment if tendered, an appointment telegram was sent to him on November 10, 1965. It having been ascertained that Mr. Flint would accept the appointment if tendered, an appointment telegram was sent to him on November 8, 1965.

Mr. Morgan then withdrew from the meeting.

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Policy questions. Under date of September 2, 1965, Governor Robertson issued a memorandum submitting a draft of an amendment to Regulation Q, Payment of Interest on Deposits, (with a corresponding amendment to Regulation D, Reserves of Member Banks), designed to bring promissory notes of member banks within the definition of deposits. He proposed that the Board publish the amendment in the Federal Register for comment.

Under date of September 17, 1965, Governor Maisel issued a memorandum in support of his view that, while the Board had the right to define promissory notes as deposits if it first made a determination that such notes were being issued primarily as deposits and in order to evade Regulation Q, the Board would not be justified at this time in transferring the line between borrowings and deposits so far as to move promissory notes over to the deposit side.

Under date of October 11, 1965, Governor Robertson issued a supplemental memorandum prompted by an interpretation of the Comptroller of the Currency that appeared in the September 1965 issue of the National Banking Review. The quarterly publication indicated that the Comptroller had made an interpretation of section 5202 of the Revised Statutes with respect to unsubordinated promissory notes of comparatively short term. Noting that such notes were issued in the ordinary course of banking business as a means of obtaining funds to be used in making loans and the performance of other banking functions, the Comptroller held that

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such negotiable or nonnegotiable promissory notes issued by national banks represented liabilities excepted from the borrowing limitations contained in section 5202.

In a letter to the Board dated October 28, 1965, President Hayes of the Federal Reserve Bank of New York expressed the view that the recent acceleration in the use by banks of short-term unsecured promissory notes made it urgent to reconsider the inclusion of such notes under a broadened definition of deposits. He also pointed out that the recent rise in interest rates offered by leading banks on negotiable certificates of deposit made it increasingly difficult for other banks to obtain funds through this route. In an attached memorandum the Reserve Bank discussed some of the considerations involved in the use of the promissory notes and in a possible upward revision of Regulation Q ceiling rates.

Under date of October 29, 1965, Governor Mitchell issued a memorandum captioned "The Federal Reserve Image" in which he indicated that he shared Governor Robertson's concern that widespread use of unsecured promissory notes by commercial banks might in individual cases lead to a precarious reliance on this instrument, and therefore to an unstable banking situation. His concern was heightened by the Comptroller's ruling that had been cited in Governor Robertson's October 11 memorandum. Governor Mitchell expressed the view, however, that neither this nor other problems could be dealt with satisfactorily on a piecemeal basis, and accordingly he proposed consideration of a package of policy actions.

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The first proposal was an increase in margin requirements from 70 per cent to 80 or 90 per cent, combined with the promulgation of a regulation on unregulated lenders. He would accompany this action with a statement expressing the view that it should help in channeling increasingly limited supplies of credit away from speculative uses. Second, he would increase the ceiling interest rate on negotiable certificates of deposit to 6 per cent, with a reduction in the minimum term of such paper to 15 days, thus assuring the banking system that it had headroom for meeting, subject to market disciplines, such credit needs as might arise. Third, he would indicate a willingness on the part of the Federal Reserve discount windows to accept notes with maturities up to 3 months from banks having difficulty in meeting seasonal needs of customers out of their own resources, and willingness to rediscount agricultural paper with maturities up to 9 months for the same purpose. The interest rate on such longer-term credits would be set above the regular discount rate and fixed so as to exert market pressure on the borrower.

After discussing problems involved in the area of relationships with member banks, Governor Mitchell suggested the following steps, some of which would require legislation. First, he would affirm the 4 per cent ceiling rate on savings deposits, but he would add a new category of savings instruments; that is, a savings bond or nonnegotiable certificate of deposit with a maturity of 5 years or more, with a ceiling rate of 5 per cent and a requirement of notice of withdrawal of at least 30

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days. Second, he would restructure reserve requirements along the lines recommended in the Board's Annual Report for 1964, in which connection he proposed three size brackets for member banks based on demand deposits, with the top bracket fixed so that there would be no overall release of reserves. He would also establish a separate classification, for reserve purposes, of negotiable certificates of deposit with a requirement of 4 or 5 per cent. Third, he proposed strengthening the System's information on the liquidity and asset changes taking place in individual member banks by instituting a weekly reporting system, for every member bank, of 10 to 20 asset, deposit, and debt categories. He would enforce proper liquidity standards by introducing a system of penalty rates for continuous borrowers that would take into account their liquidity position and their debts of all kinds. He would streamline and reenforce examination activities by putting verification procedures and operations in the hands of State and national bank examiners, leaving the Federal Reserve examiners to appraise the adequacy of internal and external accounting and auditing controls, appraise capital position and liability structure, and review loan and security portfolios for conformance to quality and liquidity standards. He would expedite business transactions with member banks by delegating authority to the Reserve Banks to process routine matters without referral to the Board, recognizing that legislation or Presidential action would be required to a certain extent. Finally, he would launch studies on what device or devices could be used to make the negotiable

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certificates of deposit of all member banks of equal marketability, and without a price disadvantage to nonprime banks; a plan of coin and currency distribution that would give evenhanded treatment to in-city and out-of-city banks; and a plan for a check-clearing system in which Federal Reserve offices would serve as clearing centers for all fully qualified items using electronic processing and transmission.

Governor Mitchell expressed the view that, although the foregoing proposals did not exhaust the steps which could be taken to improve the Federal Reserve image, such a program would strengthen the System's position vis-a-vis Government, banking, and the public generally.

Copies of all of the aforementioned documents had been distributed to the members of the Board.

Chairman Martin began today's discussion by saying that he had reviewed with the Secretary of the Treasury a number of the points in Governor Mitchell's memorandum. He then referred to the question of relationships with the Comptroller of the Currency and said that, although the situation may have improved somewhat, there was far from a meeting of the minds. This suggested moving rather cautiously. Among other things, the proposal of Chase Manhattan Bank to acquire stock of the Liberty National Bank and Trust Company of Buffalo seemed likely to be a controversial matter. As to unsecured promissory notes, the Comptroller had already ruled on them, and no immediate reversal seemed likely. The Board's issuance of a different ruling therefore would create controversy

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about a matter that, although it might become important later, was not in his (Chairman Martin's) judgment an issue of the greatest importance at the present time.

Chairman Martin then turned to Governor Robertson, who said that the Board had a duty under the law to prevent evasions of the prohibition against payment of interest on demand deposits as well as violations of the time deposit interest rate ceilings. Accordingly, the Board should not continue for long to close its eyes to the use of the promissory note device, which was purely and admittedly an evasion. Banks were turning more and more to the use of promissory notes, and by silence the Board would seem to concur in the view that the issuance of such notes was entirely legal. The Comptroller in his recent interpretation had said that these notes were not subject to the borrowing limitation of section 5202 R.S. Thus, he seemed to be saying that they were deposits, and consequently it was difficult to see how he could object to their being so defined by the Board. There might be practical reasons with which he (Governor Robertson) was not familiar for deferring action, but he did not feel that the question of personal feelings should enter into the decision. The Board had the power and the duty to take action on this important problem, and the longer it delayed the worse the problem would become.

Governor Robertson also said that he had gone over the suggestions put forward by Governor Mitchell. He thought that many of them

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should be activated and that the Board should see whether it could not take action in the indicated areas in order to perform better the public service that it was the Board's duty to perform. As he read Governor Mitchell's suggestions, however, he did not see any inconsistency between them and action on the promissory note matter. Implementation of Governor Mitchell's proposals would require discussion at a series of meetings at which all of the members of the Board should be present. According to the prospective schedule, there would not be a full Board again until about November 23. He hoped that this would not be used as a reason to refrain from taking action on the promissory note problem, which was getting more serious day by day.

Governor Shepardson emphasized the question of timing. He agreed that the promissory note problem appeared likely to get worse as more and more banks began to issue such notes. In fact, the problem may have already reached the point where it was almost inextricably tied in with some of the other problems discussed in Governor Mitchell's memorandum. As to the total program outlined in that memorandum, it involved almost without exception problems that the Board had discussed at times and from which it had backed away. He hoped that at an early date the Board would reconsider all of them. It might be difficult to obtain legislation, where that was needed, for some time to come, but there were certain matters on which the Board could move without obtaining legislation. As he had said, he was not sure whether the Board could move advantageously

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on the promissory note proposition without also having in mind some of the closely related problems discussed by Governor Mitchell, such as the maximum permissible rate on time deposits.

On the promissory note matter, Governor Shepardson said that in retrospect he felt it was unfortunate that the Board had taken the position it did in the fall of 1964. When questionable practices were first instituted, it was usually best to deal with them effectively before they became significant. In the case of the promissory notes, that had not been done, and now the problem was growing. Thus, the question was how best to deal with it at this stage. If there were practical considerations that would argue for a few weeks' delay, they should be given consideration; but if a longer delay was involved the problem might simply become more aggravated and difficult to handle. In principle, he was inclined to favor what Governor Robertson had suggested, along with the proposals outlined in Governor Mitchell's memorandum. The problem seemed to be essentially one of timing, and the Board should try to do what it could on all of these points at the proper time.

Governor Robertson remarked that if the Board decided to move on the promissory note matter, the first step would be to publish a rule-making proposal for comment, and this step would raise all of the issues that needed to be raised. After the Board had considered the comments received, it might develop that the Board would not feel warranted in making the proposal effective.

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Governor Mitchell expressed the view that the Board should not publish a proposal for comment if it was going to draw back, and Governor Robertson said he would hope that was right.

Chairman Martin then repeated that he thought the matter of timing was important. The Treasury had had a rather difficult problem with its most recent financing. The Board should be working actively to put in shape the various proposals that had been advanced, but it should be cautious about moving on them in the immediate future. It should take two or three weeks to think through all of the aspects of the problem. The staff, however, should start preparing appropriate materials so that they would be available when needed. The items mentioned in Governor Mitchell's memorandum that required bringing together additional information should be put in process. But over the next two or three weeks the Board must be careful about taking actions that would be interpreted in various ways in the markets.

The Chairman then turned to Governor Mitchell for further comment on his memorandum, and the latter stated that the views expressed were his own. He had asked the staff for assistance to only a limited extent, so the staff did not share in the responsibility for the memorandum. His own view, Governor Mitchell said, was that the problems referred to in the memorandum might well come to a head in the relatively near future. The ceiling rate on negotiable certificates of deposit presented a problem that might make it necessary for the Board to take action at some point,

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and at such time it might be found desirable for the Board also to take certain other actions. As to the promissory note proposal, he would have no objection to it if the ceiling rate on time deposits was raised. Until he was sure that the rate was going to be raised, however, he would rather not go forward on the promissory note matter because he regarded the notes as something of a safety valve. He said this recognizing the risk that might be involved in further delay.

Governor Mitchell went on to say that he would like to obtain staff reactions on the points covered in his memorandum. The staff could add a great deal in the way of judgment through analysis of content and drawing up specifications. Accordingly, he would like to have the Board assign the various parts of the memorandum to the staff for further investigation.

Chairman Martin referred to Governor Mitchell's paper as a useful, thoughtful memorandum, and he agreed that it would be desirable to have the staff work on it. He added that the Secretary of the Treasury felt strongly that nothing should be done on the ceiling rate for certificates of deposit at this particular juncture, with the Government securities market in a sensitive position, because action to raise the ceiling might be interpreted as a move toward tighter money. A good case could be made to the contrary, but this was a factor that should be taken into consideration.

Governor Mitchell asked for a judgment on the following point. If the ceiling rate were placed outside the effective range, for example as high as 6 per cent, would that cause market rates to rise?

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Governor Daane said he thought it would, since the action would be regarded as confirmation of market expectations that rates were going to move upward and that the next step would be an increase in the discount rate. He noted that frequently the market did not react on a completely rational basis.

Governor Mitchell commented that the purpose of a package of actions, accompanied by an appropriate statement, would be to try to dissuade the market from reaching unwarranted conclusions. Such a procedure might convey to the market the feeling that the Federal Reserve was not in the process of tightening at this point. The Federal Reserve, in his opinion, should say to the banking and business community that the country's economic position, while improved, had not yet reached the point where full use was being made of the potentialities. This was essentially the message that he would like to have the Federal Reserve convey in the program he had outlined.

On the question of a margin requirement change, Mr. Young observed that if the stock market continued to behave as it had been recently, a significant problem was likely to develop. The market was showing all the earmarks of speculation. This raised questions as to where the funds were coming from and whether special credit sources were being utilized that were not being picked up in the Federal Reserve statistics. If margin requirement action were taken, such action would probably not be interpreted as a tightening of monetary conditions. In fact, it might

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contribute to an easing of monetary conditions through checking the speculative impulse.

Chairman Martin noted that this was a matter of judgment. He felt personally that a margin requirement increase would heighten speculative tendencies.

Governor Daane said that he would like to see the margin requirements higher but that it was not easy to judge how the markets would react.

Governor Mitchell suggested that this was a situation where the Board might lose the initiative, and Chairman Martin then inquired of the staff whether a draft of regulation to deal with unregulated lenders had been prepared. Mr. Partee said he thought this could be prepared within a week or 10 days if regarded as a high-priority item, and Mr. Hackley confirmed that a regulation could be put in form for consideration by the Board within a relatively short time. Mr. Partee said that comments on a preliminary draft had been received from the Federal Reserve Banks and from the Securities and Exchange Commission. He added, however, the staff had not had a sense of a large amount of unregulated credit coming into the stock market.

There followed further staff comments on stock market credit developments, the essence of which was to support the view that measures to deal with unregulated lenders might not have too much quantitative impact.

Chairman Martin noted that on the basis of the available figures it was difficult to make a strong case that excessive use of credit was

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a major factor in the stock market recently, and it was the use of credit that the Board was authorized to regulate through margin requirements.

Mr. Partee commented that the use of outstanding credit may have added to trading volume, for there appeared to have been a tendency to move from one stock to another freely, but it appeared that new additions to the volume of credit in the market had mostly gone through regulated channels.

There ensued favorable comments on a restrictive ruling against same-day substitutions recently announced by the New York Stock Exchange, after which Mr. Partee observed that it should be borne in mind that the problem of unregulated lenders could become more aggravated if the margin requirements were raised. If the Board were to change margin requirements, it probably should be prepared to move at about the same time on the matter of unregulated lenders.

Chairman Martin inquired whether it would not be necessary to publish a proposed regulation for 30 days, during which time many people would be trying to obtain credit from unregulated lenders, particularly if the margin requirements had been increased. Mr. Hackley replied that the period of time allowed for comment could be less than 30 days if, in the Board's judgment, that would be in the public interest.

In the course of the discussion, Governor Mitchell said he had the feeling that the use of credit in the stock market was adding increasingly to the market's instability. While the Board had always used the

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volume of credit as the reason for changing margin requirements, the volume of activity in the market was cause for some alarm. He saw a possible need for some kind of action symbolizing the Board's concern, and this action might be in the form of a regulation dealing with the presently unregulated lender.

Governor Maisel expressed the view that the Board should not necessarily be looking at the volume of stock market credit alone. If the market showed signs of undue speculation, the problem was to isolate it from other credit areas. The logical step would be to control stock market credit directly.

Governor Maisel also said he agreed basically with the view that most of the steps suggested by Governors Robertson and Mitchell were intertwined with considerations of overall monetary policy. Study of them could not be removed from that framework; this was particularly true in regard to possible changes in the ceiling rate on certificates of deposit and in the structure of reserve requirements. More staff analysis was needed on the general policy effects of such actions, including the question of timing. He did not feel that it was reasonable to look at any of the proposed actions without giving consideration to how they would affect the money market in general.

As to promissory notes, Governor Maisel felt that the Comptroller had, in effect, defined them as deposits by ruling that their issuance was not subject to the borrowing limitations of the banks concerned. The

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Comptroller should be made aware of the fact that he had put the Board in an untenable position. However, he thought that the banks would proceed cautiously in spite of the Comptroller's ruling. In general, Governor Maisel said, he had not changed his views on the short-term promissory note matter, as expressed in his September 17 memorandum. He would not be inclined to regard them as deposits; instead, he felt that they were properly treated through the borrowing concept, and it was for this reason that he was concerned about the Comptroller's ruling. Admittedly, the Comptroller had not defined the notes as either deposits or borrowings, but they had to be something. They had to appear on a bank's balance sheet.

Chairman Martin asked Mr. Partee about developments with respect to the form of condition report, and the latter replied that plans were going ahead for compatible report forms for use by the several classes of banks at year end. There had been one setback due to the fact that the proposal to have Government securities reported by issue was rejected by the Comptroller, but plans were still being made for compatible, though not identical, report forms.

Governor Daane returned to the subject of promissory notes and said he had a great deal of sympathy with Governor Robertson's proposal. If there was any reason for regulating the payment of interest on deposits, that reasoning should be applied to promissory notes because functionally they served the same purpose as deposits. Any other treatment made a

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mockery of the prohibition against the payment of interest on demand deposits and of the establishment of ceiling rates for time deposits. Nevertheless, he tended to share Chairman Martin's judgment in terms of the overall situation, and he would want to consider the question from the standpoint of the point in time at which it would be advisable to assume whatever risks were involved in taking a stand. As to Governor Mitchell's memorandum, he regarded it as a useful point of departure since it served the purpose of focusing attention on matters to which the Board should be devoting study. On the other hand, he differed with Governor Mitchell's views on a number of the parts of the package.

Chairman Martin expressed the view that it would be helpful to have the staff analyze the several items against the background of a hypothetical assumption that the Board approved them in principle, either in the form outlined by Governor Mitchell or with modifications.

On the question of moving to 6 per cent as a ceiling rate on certificates, the Chairman noted that the Board had discussed on a number of occasions whether the establishment of a ceiling rate beyond the effective market range would be within the spirit of the law, and Governor Daane suggested that the staff explore the implications of a 6 per cent ceiling rate from the standpoint of the present discount rate and other market rates. He also suggested study of the effect on the present interest rate structure of a release of a given quantity of reserves incident to moving toward a graduated system of reserve requirements.

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Mr. Young commented that the staff could prepare a series of documents on the basis of trying to work out logical sets of integrated policy actions, with arguments pro and con, and Governor Daane said that this was the type of study he would like to have. Mr. Brill said he understood that the staff was being asked to look at the implications of any one policy action in terms of the general monetary policy being pursued and also to look at the market situation in which policy was being formulated.

There ensued comments on statistics reflecting an increasing use of promissory notes, indicating that the difficulty of taking action might increase as the volume of outstanding notes became more significant. These comments led to others suggesting that the promissory note proposal was more closely related to other aspects of policy than might at first be thought, because banks would be forced out of the competition for funds to the extent that this avenue was closed to them.

Governor Robertson said he felt that these latter comments involved a mixing up of fundamental principles. The first principle had to do with the Board's duty as a matter of law. The second question related to what the Board might do as a matter of monetary policy. On the second question there was room for differences of judgment. But the first question was simply whether the Board carried out the responsibility imposed upon it by statute.

Governor Balderston said he was troubled by the fact that the Board had failed to put forward a definition of promissory notes as

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deposits a year ago. To come forward with such a proposal now posed some questions from the standpoint of policy. He had been examining the matter in hope of finding an appropriate solution, and Governor Mitchell's idea of a package of actions appealed to him. In order for the package to have the ring of sincerity, it must include such substantive policy actions as market conditions seemed to require. The Board's staff should undertake research bearing upon the components of a possible package of actions, but meanwhile he had tried to pick out a few items that might make up a viable package. He then described and commented on the make-up of such a package. He concluded by saying that he would like to have a staff study made of the impact of such actions, separately and collectively, so that after the next Treasury financing was out of the way the Board could decide whether it wanted to proceed.

Additional discussion related to the unsuccessful effort several years ago to obtain reports from unregulated lenders and to the question of enforceability of a regulation dealing with such lending. Governor Shepardson observed that, in his opinion, it was usually better not to have a rule unless it could be enforced effectively. In this connection, he observed that in the matter of the promissory notes there might be a question of enforcement so far as national banks were concerned.

Governor Balderston then summarized by saying that the members of the Board all appeared to feel that the various aspects of the problems delineated by Governor Mitchell should be explored and that the staff

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should proceed with investigation of them with a view to additional consideration by the Board.

> Secretary's Note: In a memorandum distributed under date of November 4, 1965, Governor Balderston suggested the following steps as possible components of a package of actions, the components being modified somewhat from those he had mentioned orally: (1) An increase of Regulation Q to 5 per cent; (2) Insertion in the Federal Register of a definition of deposits to include unsubordinated notes issued to nonbanking institutions; (3) Without raising the 70 per cent margin requirement, develop regulations that would effect an incidental squeeze; (4) Insertion in the Federal Register of an extension of margin regulations to unregulated lenders; (5) Offer to accept at the discount window, notes of member banks up to 3 months for appropriate purposes (seasonal needs beyond the bank's own resources); (6) After completion of the fall program of Treasury financing, consider an increase in the discount rate if business and market conditions dictated, recognizing that no action might be advisable unless the bill rate exceeded the present discount rate by an undesirable margin; (7) Consider a change in the structure of reserve requirements based on the principle set forth in the report of the President's Committee on Financial Institutions, recognizing that ideally the action could best be implemented when both cyclical and seasonal needs made appropriate the introduction of reserves by a general reduction of reserve requirements, but that, since the reserve requirement change would deter withdrawal of small banks from System membership, it could be argued that the change to a structure of graduated requirements should be announced promptly. He suggested the possibility of action in December on the first two items, with simultaneous announcement of any of the next three items that were ready for implementation and action on the discount rate only if and when conditions seemed to dictate. On the final item, he would be governed by the size of a package that seemed to be manageable at one time.

The meeting then adjourned.

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Secretary's Notes: On November 2, 1965, Governor Shepardson approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Dallas (attached Item No. 13) approving the appointment of James F. Scott as assistant examiner.

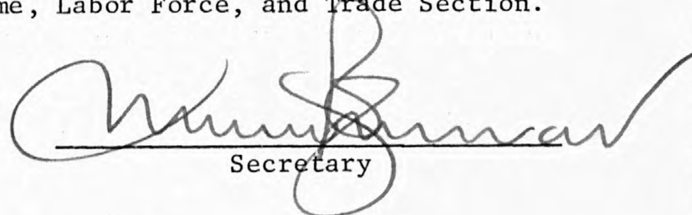
Memorandum from the Division of Research and Statistics recommending that Linda Lu Ingram, Stenographer in the Division of Personnel Administration, be transferred to the position of Stenographer in the Division of Research and Statistics, with no change in basic annual salary at the rate of $4,149, effective November 2, 1965.

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

Letter to the Federal Reserve Bank of Chicago (attached Item No. 14) approving the designation of John E. Rooney as special assistant examiner.

Letter to the Secretary of the Retirement System of the Federal Reserve Banks (attached Item No. 15) interposing no objection to incorporating into the Board Plan of the Retirement System of the Federal Reserve Banks the benefits of Public Law 89-314, approved November 1, 1965, which extended from November 30 to December 30, 1965, the time within which eligible employees might retire under Public Law 89-205.

Memorandum from the Division of Research and Statistics dated October 26, 1965, recommending the establishment of an additional economist position in the National Income, Labor Force, and Trade Section.



Secretary

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BOARD OF GOVERNORS
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WASHINGTON

Item No. 1
11/3/65

OFFICE OF THE CHAIRMAN

November 3, 1965.

PERSONAL AND CONFIDENTIAL

Mr. Erwin D. Canham, Chairman,
Federal Reserve Bank of Boston,
Boston, Massachusetts. 02106

Dear Spike:

The adequacy of compensation for Presidents and First Vice Presidents of the Federal Reserve Banks is a matter of continuing attention of the Board of Governors. Accordingly, after careful consideration, the Board has established minimum and maximum ranges for these positions, as follows, effective January 1, 1966.

| Bank | Presidents | First Vice Presidents |
|---|---|---|
| New York | $50,000 - $75,000 | $37,500 - $47,500 |
| Chicago and San Francisco | 40,000 - 60,000 | 30,000 - 38,000 |
| Other Banks | 35,000 - 50,000 | 27,500 - 35,500 |

In addition, maximum increments have been fixed in the following amounts:

| Bank | Presidents | First Vice Presidents |
|---|---|---|
| New York | $7,500 | $5,000 |
| Chicago and San Francisco | 6,000 | 4,000 |
| Other Banks | 5,000 | 4,000 |

The Board believes that existing intervals for adjustments should be retained for both the Presidents and First Vice Presidents. Therefore, each Bank may continue to recommend to the Board of Governors meritorious adjustments at the end of two years following appointment, and not more often than at three-year intervals thereafter.

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Attached is a schedule showing permissive salary progression to range maximums for the President and First Vice President of your Bank under the new guidelines, based upon present situations, assuming that (except for those retiring) incumbents are recommended for additional terms.

Sincerely yours,

(Signed) Bill

Wm. McC. Martin, Jr.

Attachments.

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BOARD OF GOVERNORS
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WASHINGTON

Item No. 2
11/3/65

OFFICE OF THE CHAIRMAN

November 3, 1965.

PERSONAL AND CONFIDENTIAL (FR)

Mr. Philip D. Reed, Chairman,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Reed:

The adequacy of compensation for Presidents and First Vice Presidents of the Federal Reserve Banks is a matter of continuing attention to the Board of Governors. Accordingly, after careful consideration, the Board has established minimum and maximum ranges for these positions, as follows, effective January 1, 1966.

| Bank | Presidents | First Vice Presidents |
|---|---|---|
| New York | $50,000 - $75,000 | $37,500 - $47,500 |
| Chicago and San Francisco | 40,000 - 60,000 | 30,000 - 38,000 |
| Other Banks | 35,000 - 50,000 | 27,500 - 35,500 |

In addition, maximum increments have been fixed in the following amounts:

| Bank | Presidents | First Vice Presidents |
|---|---|---|
| New York | $7,500 | $5,000 |
| Chicago and San Francisco | 6,000 | 4,000 |
| Other Banks | 5,000 | 4,000 |

The Board believes that existing intervals for adjustments should be retained for both the Presidents and First Vice Presidents. Therefore, each Bank may continue to recommend to the Board of Governors meritorious adjustments at the end of two years following appointment, and not more often than at three-year intervals thereafter.

However, revised maximum increases may be applied retroactively in the sense that First Vice President Treiber, who received an increase as of January 1, 1965, may receive an additional increase

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as of January 1, 1966, in the amount of the difference between the old and new rate of increase. Also, 1965 will be considered the new starting date for the interval between his future adjustments.

Attached is a schedule showing permissive salary progression to range maximums for the President and First Vice President of your Bank under the new guidelines, based upon present situations, assuming that (except for those retiring) incumbents are recommended for additional terms.

Sincerely yours,

(Signed) Bill

Wm. McC. Martin, Jr.

Attachment.

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BOARD OF GOVERNORS
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WASHINGTON

Item No. 3
11/3/65

OFFICE OF THE CHAIRMAN

November 3, 1965.

PERSONAL AND CONFIDENTIAL (FR)

Mr. Robert O. Anderson, Chairman,
Federal Reserve Bank of Dallas,
Dallas, Texas. 75222

Dear Mr. Anderson:

The adequacy of compensation for Presidents and First Vice Presidents of the Federal Reserve Banks is a matter of continuing attention of the Board of Governors. Accordingly, after careful consideration, the Board has established minimum and maximum ranges for these positions, as follows, effective January 1, 1966.

| Bank | Presidents | First Vice Presidents |
|---|---|---|
| New York | $50,000 - $75,000 | $37,500 - $47,500 |
| Chicago and San Francisco | 40,000 - 60,000 | 30,000 - 38,000 |
| Other Banks | 35,000 - 50,000 | 27,500 - 35,500 |

In addition, maximum increments have been fixed in the following amounts:

| Bank | Presidents | First Vice Presidents |
|---|---|---|
| New York | $7,500 | $5,000 |
| Chicago and San Francisco | 6,000 | 4,000 |
| Other Banks | 5,000 | 4,000 |

The Board believes that existing intervals for adjustments should be retained for both the Presidents and First Vice Presidents. Therefore, each Bank may continue to recommend to the Board of Governors meritorious adjustments at the end of two years following appointment, and not more often than at three-year intervals thereafter.

However, revised maximum increases may be applied retroactively in the sense that First Vice President Coldwell who received an increase as of January 1, 1965, may receive an additional increase

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as of January 1, 1966, in the amount of the difference between the old and new rate of increase. Also, 1965 will be considered the new starting date for the interval between his future adjustments.

Attached is a schedule showing permissive salary progression to range maximums for the President and First Vice President of your Bank under the new guidelines, based upon present situations, assuming that (except for those retiring) incumbents are recommended for additional terms.

Sincerely yours,

(Signed) Bill

Wm. McC. Martin, Jr.

Attachment.

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Item No. 4
11/3/65

Attachment

Permissive salary progressions for President and First Vice President.

Boston

| | Current | 1966 | 1969 | 1972 |
|---|---|---|---|---|
| President Ellis | $35,000 | $40,000 | $45,000 | $50,000 (Maximum) |
| First Vice President Latham | 27,500 | 31,500 | 35,500 (Maximum) | |

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Attachment

Permissive salary progressions for President and First Vice President.

New York

| | Current | 1966 | 1968 |
|---|---|---|---|
| President Hayes | $75,000 (Maximum) | | |
| First Vice President Treiber | 42,500 | 45,000 | 47,500 (Maximum) |

The $2,500 increase for Mr. Treiber in 1966 represents the difference between $2,500 increase given in 1965 and new maximum of $5,000 per adjustment. The 1965 date continues to be the start of the three-year interval period, permitting in 1968 the remaining adjustment that is necessary to place Mr. Treiber's salary at maximum.

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Attachment

Permissive salary progressions for President and First Vice President.

Philadelphia

| | Current | 1966 | 1969 | |
|---|---|---|---|---|
| President Bopp | $40,000 | $45,000 | $50,000 | (Maximum) |
| First Vice President Hilkert | 27,500 | 31,500 | 35,500 | (Maximum) |

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Attachment

Permissive salary progressions for President and First Vice President.

Cleveland

| | Current | 1966 | 1969 |
|---|---|---|---|
| President Hickman | $40,000 | $45,000 | $50,000 (Maximum) |
| First Vice President Fink | 25,000 | 25,000[1] | |

1/ No increase because of retirement, effective February 28, 1966.

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Attachment

Permissive salary progressions for President and First Vice President.

Richmond

| | Current | 1966 | 1969 | |
|---|---|---|---|---|
| President Wayne | $40,000 | $45,000 | $50,000 | (Maximum) |
| First Vice President Heflin | 27,500 | 31,500 | 35,500 | (Maximum) |

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Attachment

Permissive salary progressions for President and First Vice President.

Atlanta

| | Current | 1968 | 1971 |
|---|---|---|---|
| President Patterson | $35,000 | $40,000 | *** |
| First Vice President Kimbrel | 27,500 | 31,500 | $35,500 (Maximum) |

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Attachment



Permissive salary progressions for President and First Vice President.

Chicago

| | Current | 1967 | | |
|---|---|---|---|---|
| President Scanlon | $55,000 | $60,000 (Maximum) | | |
| | | 1966 | 1969 | 1972 |
| First Vice President Helmer | 27,500 | $31,500 | $35,500 | $38,000 (Maximum) |

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Attachment

Permissive salary progressions for President and First Vice President.

St. Louis

| | Current | 1968 | 1971 | |
|---|---|---|---|---|
| President Shuford | $40,000 | $45,000 | $50,000 | (Maximum) |
| | | 1966 | 1969 | |
| First Vice President Francis | 27,500 | 31,500 | 35,500 | (Maximum) |

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Attachment

Permissive salary progressions for President and First Vice President.

Minneapolis

| | Current | 1967 | 1971 | 1974 |
|---|---|---|---|---|
| President Galusha | $37,500 | $42,500(May) | $47,500 | $50,000 (Maximum) |
| | | 1966 | 1969 | 1972 |
| First Vice President Strothman | $25,000 | $29,000 | $33,000 | $35,500 (Maximum) |

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Attachment

Permissive salary progressions for President and First Vice President.

Kansas City

| | Current | 1966 | 1969 | 1972 |
|---|---|---|---|---|
| President Clay | $37,500 | $42,500 | $47,500 | $50,000 (Maximum) |
| First Vice President Koppang | 30,000 | 30,000 1/ | | |

1/ No increase in view of retirement, effective February 28, 1966.

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Attachment

Permissive salary progressions for President and First Vice President.

Dallas

| | Current | 1966 | 1969 | |
|---|---|---|---|---|
| President Irons | $40,000 | $45,000 | $50,000 (Maximum) | |
| | | 1966 | 1968 | 1971 |
| First Vice President Coldwell | 27,500 | 29,000 | 33,000 | 35,500 (Maximum) |

The $1,500 increase for Mr. Coldwell in 1966 represents the difference between the $2,500 increase given in 1965 and new maximum increase of $4,000 per adjustment. The 1965 date is also considered the start of the three-year interval period permitting subsequent adjustments in 1968 and 1971.

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Attachment

Permissive salary progressions for President and First Vice President.

San Francisco

| | Current | 1966 | 1969 | 1972 | 1975 |
|---|---|---|---|---|---|
| President Swan | $40,000 | $46,000 | $52,000 | $58,000 | $60,000 (Maximum) |
| First Vice President Hemmings | 27,500 | 31,500 | 35,500 | 38,000 (Maximum) | |

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BOARD OF GOVERNORS
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Item No. 5
11/3/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 5, 1965.

CONFIDENTIAL (FR)

Mr. Alfred Hayes, President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Hayes:

The Board of Governors has carefully considered the informal request for revised officers' salary ranges at the New York Federal Reserve Bank, as outlined in Mr. Treiber's letter of August 9, 1965, and has indicated that it would not be receptive to a formal request for a structure revision at this time.

The Board's Committee on Organization, Compensation and Building Plans also discussed the results of the preliminary meeting with you regarding officers' salary proposals for 1966. This will confirm the Committee's decision that three proposed increases should be eliminated including the $5,000 increase proposed for Assistant Vice President Schiff, who is on leave of absence until late in 1966, and increases proposed for two other officers to be decided upon by the Reserve Bank.

It is understood that formal proposals for officers' salaries will be delayed until your Board of Directors has an opportunity to consider such recommendations at its meeting on November 18.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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BOARD OF GOVERNORS
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WASHINGTON

Item No. 6
11/3/65

OFFICE OF THE CHAIRMAN

November 3, 1965.

CONFIDENTIAL (FR)

Mr. Joseph B. Hall, Chairman,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio. 44101

Dear Joe:

The Board of Governors has considered the salary proposal for President Hickman as requested in your letter of July 15, 1965, and in view of all the circumstances, approves the payment of salary to Mr. Hickman for the period January 1 through December 31, 1966, at the rate of $45,000 per annum.

A separate letter is being sent to you showing revised guidelines for administering salaries of Presidents and First Vice Presidents of Federal Reserve Banks, effective January 1, 1966, including a schedule of permissive salary progression in the future for President Hickman.

Sincerely yours,

(Signed) Bill

Wm. McC. Martin, Jr.

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

Item No. 7
11/3/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 3, 1965.

Board of Directors,
Manufacturers Hanover Trust Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Manufacturers Hanover Trust Company, New York, New York, of a branch at 130 Stuyvesant Place, Borough of Richmond, New York, New York, provided the branch is established within one year 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
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WASHINGTON, D. C. 20551

Item No. 8
11/3/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 3, 1965.

Board of Directors,
Bank of Warwick,
Newport News, Virginia.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Bank of Warwick, Newport News, Virginia, of a branch on the northwest corner of Warwick Boulevard and Beechmont Drive, Newport News, Virginia, 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
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Item No. 9
11/3/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 3, 1965.

Board of Directors,
The Union Savings & Trust Co.,
Warren, Ohio.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Union Savings & Trust Co., Warren, Ohio, of a branch at the southeast corner of Liberty Avenue and Belmont Avenue (Route 170), Liberty Township, Trumbull County, Ohio, provided the branch is established within one year 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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WASHINGTON, D. C. 20551

Item No. 10
11/3/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 3, 1965.

Board of Directors,
Ludington State Bank,
Ludington, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Ludington State Bank, Ludington, Michigan, of a branch at 5860 East Ludington Avenue, Pere Marquette Township, Mason County, Michigan, provided the branch is established within one year 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. 11
11/3/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 3, 1965.

Chase International Investment Corporation,
1 Chase Manhattan Plaza,
New York, New York. 10005

Gentlemen:

In accordance with the request contained in your letter of October 5, 1965, transmitted through the Federal Reserve Bank of New York, and on the basis of information furnished, the Board of Governors grants consent for your Corporation to purchase and hold approximately 25,000 shares of the capital stock of Interamericana de Arrendamientos, S.A., Mexico, D.F., Mexico, at a cost of approximately US$320,000, provided such stock is acquired within one year from the date of this letter.

The foregoing consent is given with the understanding that the foreign loans and investments of your Corporation combined with those of The Chase Manhattan Bank (National Association) and Chase Manhattan Overseas Banking 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.

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BOARD OF GOVERNORS
OF THE
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WASHINGTON, D. C. 20551

Item No. 12
11/3/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 3, 1965.

Mr. George Champion,
Chairman Board of Directors,
The Chase Manhattan Bank,
1 Chase Manhattan Plaza,
New York, New York. 10015

Dear Mr. Champion:

This refers to your letter of October 20, 1965, transmitted to the Board by the Federal Reserve Bank of New York on October 22, 1965, regarding your Bank's proposal to acquire not less than 80 per cent of the outstanding shares of stock of the Liberty National Bank and Trust Company of Buffalo, New York.

Your letter requests

(1) that the Board rule that, after consummation of such exchange, your Bank "will not be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies and that, accordingly, it will not be a 'holding company affiliate' within the meaning of Section 2(c) of the Banking Act of 1933 (12 U.S.C. 221a), except for the purposes of Section 23 A of the Federal Reserve Act (12 U.S.C. 371c)"; and

(2) in the event the Board determines adversely with respect to the above request, that your Bank "be granted a voting permit entitling this Bank to vote the stock of Liberty National Bank and Trust Company which it shall hold, directly or indirectly, at all meetings of the shareholders of Liberty National Bank and Trust Company and for all purposes."

It appears to the Board that the proposed transaction would cause Chase to become engaged "as a business in holding the stock of, or managing or controlling" a bank within the meaning of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935, and that the Board could not properly grant your Bank's request for a determination under that section that would exempt your Bank from the definition of a "holding company affiliate".

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The legislative history of the 1935 amendment indicates that it was not the intent of Congress to exempt from the "holding company affiliate" definition companies that are principally engaged in the banking business. The Board finds it difficult to conclude that a bank that holds a majority of the stock of another bank is not engaged as a business in holding bank stock or in managing or controlling a bank.

Your letter points out that the last sentence of section 2(c) refers to banks in the plural, and that in this case ownership of the stock of only one bank (Liberty) would be involved. However, the definition of the term "holding company affiliate" is based expressly on the existence of such a relationship with "a member bank", in the singular, and also refers to "any one bank". In this connection, it is noted that section 1 of Title 1 of the United States Code makes it clear that the plural includes the singular unless the context otherwise requires.

The fact that both the controlling and controlled banks would be subject to supervision by a Federal bank supervisory authority is also mentioned in your letter. In the Board's opinion, this fact is not a relevant consideration in determining whether, as a factual matter, a corporation is engaged as a business in holding bank stock or in managing or controlling a bank or banks.

If an exemptive determination of the sort above mentioned should not be granted, your letter requests that the Board grant a permit, pursuant to section 5144 of the Revised Statutes, to vote the stock of Liberty to be owned by Chase.

Section 5144 provides that the Board, in its discretion, may grant or withhold such a voting permit as the public interest may require. It appears to the Board that the acquisition by Chase of the stock of Liberty would violate that provision of section 5136 of the Revised Statutes that prohibits a national bank from purchasing corporate stocks for its own account and the provisions of section 5155 of the Revised Statutes that prohibit the establishment of branches by national banks except under certain conditions. If the proposed transaction would result in violation of these Federal statutes, it would not be in the public interest.

It also appears to the Board that, whether or not the proposed transaction would violate specific provisions of the National Bank Act, it would be inconsistent with the policy of Congress as reflected in provisions of Federal laws that limit the geographic expansion of the

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banking operations of national banks and that vest in the Comptroller of the Currency supervisory authority in connection with such expansion.

The acquisition by a national bank of the controlling stock of another bank would enable the national bank to conduct banking business through a subsidiary in places (even in another State) where it could not transact such business directly, through "ordinary" branches; and such expansion of a national bank's banking organization and operations, if it was permissible, could be effected without the prior approval of the Comptroller.

The analysis outlined in the preceding paragraphs would lead to the conclusion that the granting of the requested voting permit would not be in the public interest.

However, before acting upon the requests contained in your letter, the Board would be glad to consider any arguments or comments that your Bank may wish to submit.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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BOARD OF GOVERNORS
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WASHINGTON, D. C. 20551

Item No. 13
11/3/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 2, 1965

Mr. Thomas R. Sullivan, Vice President,
Federal Reserve Bank of Dallas,
Dallas, Texas. 75222

Dear Mr. Sullivan:

In accordance with the request contained in your letter of October 28, 1965, the Board approves the appointment of James F. Scott as an assistant examiner for the Federal Reserve Bank of Dallas, effective today.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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BOARD OF GOVERNORS
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WASHINGTON, D. C. 20551

Item No. 14
11/3/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 3, 1965

Mr. Leland M. Ross, Vice President,
Federal Reserve Bank of Chicago,
Chicago, Illinois. 60690

Dear Mr. Ross:

In accordance with the request contained in your letter of October 28, 1965, the Board approves the designation of John E. Rooney as a special assistant examiner for the Federal Reserve Bank of Chicago.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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BOARD OF GOVERNORS
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WASHINGTON, D. C. 20551

Item No. 15
11/3/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 3, 1965.

Mrs. Valerie R. Frank,
Secretary, Retirement System
of the Federal Reserve Banks,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mrs. Frank:

The Board of Governors interposes no objection to incorporating the benefits of Public Law 89-314 approved November 1, 1965, into the Board Plan of the Retirement System of the Federal Reserve Banks. This law extends the time from November 30 to December 30, 1965, for those eligible to retire under Public Law 89-205, with no change in benefits.

Very truly yours,

Merritt Sherman,
Secretary.

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