

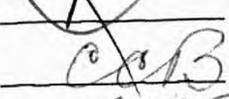
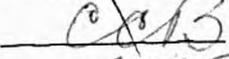
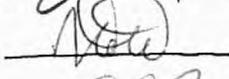
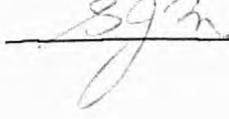
Minutes for November 29, 1965.

To: Members of the Board
From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

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

Minutes of the Board of Governors of the Federal Reserve System on Monday, November 29, 1965. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
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
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research and Statistics
Mr. Johnson, Director, Division of Personnel Administration
Mr. Kakalec, Controller
Mr. Schwartz, Director, Division of Data Processing
Mr. Hexter, Associate General Counsel
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Bass, Assistant Controller
Mrs. Semia, Technical Assistant, Office of the Secretary
Mr. Plotkin, Senior Attorney, Legal Division
Messrs. Egertson and Sidman of the Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of St. Louis and Dallas on November 26, 1965, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

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Reports on competitive factors. After discussion, reports to the Comptroller of the Currency on the competitive factors involved in the following proposed mergers were approved unanimously for transmittal to the Comptroller in a form in which the conclusions were stated as follows:

Merger of The Citizens National Bank in West Milton, West Milton, Ohio, into The First Troy National Bank and Trust Company, Troy, Ohio

The First Troy National Bank and Trust Company and The Citizens National Bank in West Milton are not direct competitors to a significant extent, and the competitive effects of the transaction would not be seriously adverse.

Merger of Metamora State Savings Bank, Metamora, Michigan, into The First National Bank of Lapeer, Lapeer, Michigan

The close relationship which has existed between First National Bank of Lapeer and Metamora State Savings Bank for nearly 10 years has limited competition between them; while there is some potential for competition between them if this relationship should terminate, the overall competitive effects of the proposed merger would not be significantly adverse.

A report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of Empire Safe Deposit Company into Empire Trust Company, both of New York, New York, was approved unanimously for transmittal to the Corporation. The conclusion read as follows:

The proposed merger would have no effect on competition.

State of the Union Message (Item No. 1). There had been distributed a memorandum dated November 26, 1965, from Mr. Hackley regarding a

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request for the submission of any legislative or other proposals that might be included in the President's forthcoming State of the Union address. The memorandum noted that although the Board's Annual Report for 1964 had included recommendations for legislation on various subjects, it was questionable whether any of the proposals were of the kind that would be regarded as sufficiently important to warrant mention in the President's Message. Accordingly, Mr. Hackley recommended that the White House be advised that the Board had no proposals to suggest.

There was unanimous agreement with Mr. Hackley's recommendation. A copy of the letter subsequently sent to the White House is attached as Item No. 1.

Computer feasibility study (Item No. 2). Pursuant to an exploratory discussion at the meeting on June 11, 1965, there had been distributed a memorandum dated November 23, 1965, from Mr. Schwartz recommending that a contract be entered into with Communication Systems Incorporated, Paramus, New Jersey, at a cost of \$19,700 for a detailed study of the feasibility of a shared on-line remote computer operation at the proposed relocation site of the Board and the Federal Reserve Bank of Richmond. The memorandum noted that an item of \$25,000 for outside consultant services in connection with the computer project was contained in the tentative budget for the Division of Data Processing for 1966; even though the proposed contract was initiated in 1965, payment would not be made until 1966.

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After discussion the recommendation was approved unanimously. A copy of the letter subsequently sent to Communication Systems Incorporated relating to the contract is attached as Item No. 2.

Regulation F: disclosure of loans to "insiders" (Item No. 3).

There had been distributed a memorandum dated November 26, 1965, from the Legal Division regarding proposed amendments to Federal Reserve Forms F-1 and F-5 of Regulation F, Securities of Member State Banks. The amendments, which related to disclosure of loans to "insiders" and were largely of a clarifying nature, had been approved by the Board on November 8, 1965, for publication for comment, but with the understanding that if the Federal Deposit Insurance Corporation did not authorize similar action with respect to its parallel regulation, the Board's proposed amendments would be withheld and an attempt made to work out the problems involved on an interpretative basis. It had been learned subsequently that no action was taken on the matter at two intervening meetings of the Corporation's Board; that the earliest date the subject could be considered again would be December 1; and that it was doubtful whether action would be taken even at that time. Publication for comment at that date would, in any case, be impractical since it was necessary to make the amendments effective before the end of the year in time for their use in solicitations of proxies during the first quarter of 1966, when most banks would be holding their annual meetings. Therefore, there was attached to the memorandum for the Board's consideration a draft of an interpretation embodying the substance of the amendments.

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After discussion the interpretation was approved unanimously. A copy of the interpretation in the form in which it was published in the Federal Register is attached as Item No. 3.

Regulation F: financial statements in annual reports to security holders (Item No. 4). There had been distributed a memorandum dated November 26, 1965, from the Legal Division and the Division of Examinations stating that during the first quarter of 1966 banks that were subject to Regulation F, Securities of Member State Banks, would--generally for the first time--be soliciting proxies in accordance with the requirements of the regulation. Several of the smaller registrant banks had evidenced uncertainty about the form and content of financial statements to be included in the required annual report to their security holders. Language in section 206.5(c) of Regulation F had been intended to convey the thought that such financial statements should be on substantially the same basis as those required to be filed pursuant to Regulation F, but it appeared that some banks might be reluctant to follow those requirements, since statements of condition published in accordance with call report requirements might differ from the financial presentation required by Regulation F. It was recognized that the call report requirements could not be made wholly consistent with those of Regulation F at the present time. However, it was believed that to allow financial statements contained in any report to stockholders to differ substantially from the disclosure requirements of Regulation F

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would diminish the effectiveness of the regulation. Accordingly, it was recommended that an interpretation be published in the Federal Register to make it clear that where call report requirements and those of Regulation F were not consistent, the latter should be followed in banks' annual reports to their security holders. A draft of such an interpretation was attached to the memorandum.

There was agreement during discussion with suggestions made by Governor Mitchell in order to make the interpretation more specific.

The issuance of an interpretation incorporating these suggestions was then approved unanimously. A copy of the interpretation in the form in which it was published in the Federal Register is attached as Item No. 4.

The meeting then adjourned.

Secretary's Note: Acting in the absence of Governor Shepardson, Governor Robertson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of St. Louis (attached Item No. 5) approving the appointment of Robert W. Page and Delmer D. Weisz as examiners.

Memorandum from Mr. Holland, Adviser to the Board, recommending that Frances Lucile Griffin, Secretary in the Division of Research and Statistics, be transferred to the position of Secretary in the Board Members' Offices, with no change in basic annual salary at the rate of \$6,278, effective November 1, 1965.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 1
11/29/65

OFFICE OF THE CHAIRMAN

November 30, 1965.



Mr. Joseph A. Califano, Jr.,
Special Assistant to the President,
The White House.

Dear Mr. Califano:

This is in reply to the President's memorandum of November 15, 1965, regarding legislative proposals that might be included in the State of the Union Message. As your office has been advised by telephone, the Board of Governors has no recommendations for legislation that would be appropriate for inclusion in the President's address.

Sincerely yours,

A handwritten signature in cursive script that reads "Wm. McC. Martin, Jr." with a large, sweeping flourish at the end.

Wm. McC. Martin, Jr.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 2
11/29/65

WASHINGTON, D. C. 20551



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 3, 1965.

Mr. J. R. Clary,
Director, Contracts,
Communication Systems Incorporated,
Paramus, New Jersey. 07652

Dear Mr. Clary:

The Board of Governors has authorized acceptance of CSI Proposal 671/64 (revised November 3, 1965) for a feasibility study of a remote joint computer operation to be shared on-line by the Federal Reserve Board and the Federal Reserve Bank of Richmond. However, as a result of mutual agreement between your staff and the Board's Division of Data Processing it is understood that you will deliver the final report by March 31, 1966 rather than "within three months after date of contractual authorization" as stated in your proposal.

The \$19,700 fee will be payable on delivery and acceptance of the final report rather than "within fifteen days after delivery of the final report." If this is satisfactory please sign and return the enclosed copy of this letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

TITLE 12 - BANKS AND BANKING

Item No. 3
11/29/65

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. F]

PART 206 - SECURITIES OF MEMBER STATE BANKS

Proxy Solicitation by Bank Management

§ 206.102 Disclosure of loans to "insiders".

(a) The Board of Governors has recently been asked to clarify its position with respect to disclosure of loans to "insiders"--that is, officers, directors, and persons holding more than 10 per cent of the bank's stock--in management proxy statements furnished in accordance with the requirements of § 206.5 and § 206.51 (Form F-5). This interpretation is also applicable to disclosure of such transactions under comparable provisions relating to registration of bank securities (§ 206.41; Form F-1) under section 12 of the Securities Exchange Act of 1934 (15 U.S.C. 78 1).

(b) Item 7(f) of Form F-5 and Item 12 of Form F-1 in effect require a description of any material^{1/} interest of any insider or any of his "associates"^{2/} in any material transaction to which the bank was,

1/ "The term 'material', when used to qualify a requirement for furnishing of information as to any subject, limits the information required to those matters as to which an average prudent investor ought reasonably to be informed before buying or selling the security registered." (§206.2(n)).

2/ "The term 'associate', when used to indicate a relationship with any person, means (1) any corporation or organization (other than the bank or a majority-owned subsidiary of the bank) of which such person is an officer or partner or is, directly or indirectly, either alone or together with one or more members of his immediate family, the beneficial owner of 10 per cent or more of any class of equity securities, (2) any trust or other estate in which such person has a substantial beneficial interest or as to which such person serves as a trustee or in a similar fiduciary capacity, and (3) any relative or spouse of such person, or any relative of such spouse, who has the same home as such person or who is a director or officer of the bank or any of its parents or subsidiaries." (§ 206.2(d)).

or is to be, a party. These Items contain a number of specific exemptive instructions--for example, no disclosure is required where the only interlock is that a director of a bank is a director and/or officer of another corporation that is a party to the transaction. Generally, these Items require disclosure of loans to a corporate borrower only where insiders, individually or with members of their immediate families^{3/}, own at least 10 per cent of the borrower's outstanding stock.

(c) The Board does not regard loans and other extensions of credit by a registrant bank in the ordinary course of its business as "material" for the purposes of this Part (and therefore required to be disclosed unless otherwise specifically exempted by the instructions in these Items) if such loans (1) are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other than insiders, (2) at no time aggregate more than 10 per cent of the equity capital accounts of the bank or \$10 million, whichever is less, and (3) do not involve more than the normal risk of collectibility or present other unfavorable features.

(d) Item 7(e) of Form F-5 requires disclosure of indebtedness to the bank of each director or officer of the bank and each nominee for election as a director. An instruction to this Item specifically excludes indebtedness resulting from transactions in the ordinary course

^{3/} "The term 'immediate family' includes a person's (1) spouse; (2) son, daughter, and descendant of either; (3) father, mother, and ancestor of either; (4) stepson and stepdaughter; and (5) stepfather and stepmother. For the purpose of determining whether any of the foregoing relationships exist, a legally adopted child shall be considered a child by blood."
(§ 206.2(k)).

of the bank's business. The effect of this instruction is to exempt the bank from reporting under Item 7(e) normal extensions of credit to such persons, of types and amounts customarily made by the bank in the usual course of its operations. However, even if disclosure of indebtedness is not required by Item 7(e), consideration must be given to whether it must be reported in the light of the provisions of Item 7(f), referred to above.

(e) It should also be noted that Item 7(e) requires disclosure of any liability to the bank that appears to have arisen under section 16 of the Securities Exchange Act of 1934 (15 U.S.C. 78p) as a result of "insider" transactions in the bank's stock (or other equity security).

(15 U.S.C. 78w. Interprets or applies 15 U.S.C. 78l and 78n.)

Dated at Washington, D. C., this 29th day of November, 1965.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(SEAL)

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

TITLE 12 - BANKS AND BANKING

Item No. 4
11/29/65

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. F]

PART 206 - SECURITIES OF MEMBER STATE BANKS

Proxy Solicitation by Bank Management

§ 206.103 Financial statements to be included in annual reports to security holders.

(a) Since 1966 will generally be the first time that banks subject to the public disclosure requirements of the Securities Exchange Act of 1934 (15 U.S.C. 78) will be soliciting proxies in accordance with such requirements, the Board of Governors directs the attention of registrant banks to § 206.5(c) of this Part (Reg. F). It is provided therein that a bank's proxy statement (or the statement that must be distributed where management does not solicit proxies) which relates to an annual meeting of security holders at which directors are to be elected, shall be accompanied or preceded by an annual report to such security holders "containing such financial statements for the last fiscal year as will, in the opinion of the management, adequately reflect the financial position and operations of the bank."

(b) Adherence to the following reporting standards, prescribed in Regulation F, is considered necessary to reflect adequately the financial position and results of operations of registrant banks in such annual reports to security holders:

1. Financial statements should be prepared on a consolidated basis to the extent required by Regulation F.

2. A statement of income should be furnished in a form providing for the determination of the "amount transferred to undivided profits" as a result of all activity related to the preceding year.

3. A statement of changes in capital accounts, including capital reserves, should be included.

4. Valuation reserves should be reported as reductions of related asset values.

5. A reconciliation of valuation reserves should be presented, showing material charges and credits.

(c) Section 206.5(c) further provides that--

"The financial statements included in the annual report may omit details or summarize information if such statements, considered as a whole in the light of other information contained in the report and in the light of the financial statements of the bank filed or to be filed with the Board, will not by such procedure omit any material information necessary to a fair presentation or to make the financial statements not misleading under the circumstances. Subject to the foregoing requirements with respect to financial statements, the annual report to security holders may be in any form deemed suitable by the management."

(d) Pursuant to these provisions, the financial statements included in annual reports to security holders should not be inconsistent with the financial reporting prescribed by Regulation F and they should

conform in all material respects to the accounting principles stated therein. However, annual reports to security holders need not include the detailed information required in annual reports filed with the Federal Reserve Board on Federal Reserve Form F-2 (§ 206.42).

(15 U.S.C. 78w. Interprets or applies 15 U.S.C. 78n.)

Dated at Washington, D. C., this 29th day of November, 1965.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 5
11/29/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 29, 1965.

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

Dear Mr. Wyrick:

In accordance with the request contained in your letter of November 22, 1965, the Board approves the appointments of Robert W. Page and Delmer D. Weisz at present assistant examiners, as examiners for the Federal Reserve Bank of St. Louis, effective January 1, 1966.

Very truly yours,

(Signed) Elizabeth L. Carmichael
Elizabeth L. Carmichael,
Assistant Secretary.