

Minutes for February 28, 1966

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>W</u>
Gov. Robertson	<u>R</u>
Gov. Balderston	<u></u>
Gov. Shepardson	<u>CS</u>
Gov. Mitchell	<u>CM</u>
Gov. Daane	<u>DD</u>
Gov. Maisel	<u>SM</u>



Minutes of the Board of Governors of the Federal Reserve System
on Monday, February 28, 1966. The Board met in the Board Room at
10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, 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. Fauver, Assistant to the Board
Mr. Morgan, Staff Assistant, Board Members'
Offices

Messrs. Brill, Koch, Partee, Axilrod, Gramley,
Eckert, Ettin, Keir, and Taylor of the
Division of Research and Statistics

Messrs. Sammons, Hersey, Katz, Reynolds, Baker,
Gemmill, Hayes, and Mills of the Division
of International Finance

Money market review. Mr. Axilrod commented on the Government securities market, Mr. Ettin reviewed bank credit developments, Mr. Baker summarized foreign exchange market developments, and Mr. Hayes commented on British wage and price trends. Distributed materials included tables affording perspective on the money market, the capital market, and bank reserve utilization, along with charts showing yields on U.S. Government securities and the trend of industrial wages in the United Kingdom.

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All members of the staff who had been present except Messrs. Sherman, Kenyon, Broida, Young, Holland, Solomon, Molony, Fauver, Brill, Sammons, Partee, Axilrod, Eckert, and Ettin then withdrew and the following entered the room:

Mr. Hackley, General Counsel
 Mr. Farrell, Director, Division of Bank Operations
 Mr. Solomon, Director, Division of Examinations
 Mr. Johnson, Director, Division of Personnel Administration
 Mr. Kakalec, Controller
 Mr. O'Connell, Assistant General Counsel
 Mr. Kiley, Assistant Director, Division of Bank Operations
 Mr. Leavitt, Assistant Director, Division of Examinations
 Mr. Thompson, Assistant Director, Division of Examinations
 Mr. Sprecher, Assistant Director, Division of Personnel Administration
 Mr. Lyon, Review Examiner, Division of Examinations
 Mr. Hart and Mrs. Burns of the Division of Personnel Administration
 Mr. Waller, Supervisory Accountant, Office of the Controller
 Messrs. Veenstra and Vander Noot of the Division of Data Processing

Waiver of penalty (Item No. 1). Unanimous approval was given to a letter to the Federal Reserve Bank of Atlanta (copy attached as Item No. 1) waiving the assessment of a penalty incurred by City National Bank of Miami Beach, Miami Beach, Florida, because of a deficiency in its required reserves.

Application of Virginia Commonwealth Corporation (Items 2 and 3).

There had been distributed a proposed order and statement reflecting the Board's approval on February 18, 1966, of the application of Virginia Commonwealth Corporation, Richmond, Virginia, to acquire shares of The Bank of Central Virginia, Lynchburg, Virginia.

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The issuance of the order and statement was authorized; copies of the documents, as issued, are attached as Items 2 and 3.

Revision of weekly reporting member bank series. There had been distributed a memorandum from the Division of Research and Statistics dated February 18, 1966, recommending revision of the weekly reporting member bank series along lines approved by the Committee on Current Reporting Series, the System Research Advisory Committee, and the Conference of Presidents of the Federal Reserve Banks. It was hoped to institute the new series by midyear if approval was obtained from the Bureau of the Budget. The relatively long lead time was required to inform cooperating banks of the changes and also to make the necessary adjustments in editing and data processing procedures. The proposed changes contemplated a broader selection of reporting banks, a more detailed breakdown of selected asset and liability items, and revision of the method of adjusting for mergers, conversions, and other changes in coverage.

The discussion of the proposal included responses by the staff to several questions of a technical nature raised by members of the Board. The discussion also included comments by Governor Mitchell on the amount of time involved in bringing projects to fruition under the procedures currently followed whereby such projects were channeled through various System committees and the organizational structure of the Presidents' Conference. He cited the history of the proposal now

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before the Board as illustrative of the delay in bringing projects of this kind to the stage of accomplishment. Other members of the Board expressed themselves similarly, and it was understood that the staff would be free to relate the essence of these comments to the System Research Advisory Committee.

The proposed revision of the weekly reporting member bank series was then approved unanimously, with the understanding that a letter would be sent to the Bureau of the Budget requesting its approval of the new series.

Budget performance report. There had been distributed under date of February 8, 1966, a report from the Office of the Controller reviewing performance under the Board's budget for the year 1965.

After discussion, the report was accepted. It was noted that although nearly all budget account overexpenditures had been approved before the end of 1965, several items totaling \$16,623 had not been submitted for approval prior to that time. Acceptance of the budget performance report constituted approval of these remaining overexpenditures.

Annual audit of financial statements (Items 4 and 5). There had been distributed by the Board's Secretary under date of February 16, 1966, documents entitled (1) Financial Statements and Accountants' Opinion and (2) Report on Scope of Examination of Financial Statements submitted by the firm of Haskins & Sells in connection with their audit of the Board's accounts for the year ended December 31, 1965.

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The reports were accepted with the understanding that copies would be transmitted to the Chairmen of the Senate and House Banking and Currency Committees. Copies of the transmittal letters are attached as Items 4 and 5.

Governor Shepardson noted that Haskins & Sells also had the assignment in 1965 for review of procedures followed by the Board's staff in examinations of the Federal Reserve Banks. He mentioned that the firm's report on such assignment had not yet been received, and it was agreed to await receipt of the report before determining whether arrangements should be made for a representative of the firm to meet with the Board.

Rules regarding employee responsibilities and conduct (Item No. 6).

There had been distributed a memorandum from Mr. Hackley dated February 16, 1966, submitting a revised draft of Board rules regarding employee responsibilities and conduct. The revised draft reflected comments made by the Civil Service Commission as well as changes in style suggested by the Office of the Federal Register. These changes from the draft considered by the Board at its meeting on December 21, 1965, were relatively minor in nature. The Civil Service Commission had advised by letter dated January 21, 1966, that, subject to these changes, the Board's rules were approved for submission to the Federal Register for publication.

Mr. Hackley recommended in his memorandum that the rules now be transmitted to the Federal Register, to become effective upon the date

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of publication. The Civil Service Commission regulations provided that within 90 days after the effective date, each employee should be furnished a copy of the rules or a comprehensive summary thereof. According to the consensus reached when the subject was previously considered by the Board, employees of the Board would be furnished only a comprehensive summary although the rules themselves would be available upon request. It was contemplated that the Division of Personnel Administration would advise all employees that the Board had adopted the rules, that a comprehensive summary would be distributed shortly, and that a counselor and deputy counselors would be available to advise employees with respect to any questions. Mr. Hackley had earlier been designated as the Board's counselor and the Civil Service Commission had been so advised. He now suggested that Mr. Hart, Assistant to the Director, Division of Personnel Administration, and Mr. Shuter, Attorney, Legal Division, be designated deputy counselors. Mr. Hackley also suggested that a copy of the Board's rules be sent to the Presidents of the Federal Reserve Banks with a statement to the general effect that Reserve Bank employees should be governed by rules of conduct at least as stringent as those applicable to employees of the Board.

In reviewing the matter orally, Mr. Hackley said he would now suggest that copies of the rules be sent to the Reserve Bank Presidents merely as a matter of information rather than in any sense requiring the Reserve Banks to adopt identical rules. He noted that some provisions of the Board's rules would not be applicable for technical reasons.

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Question was raised whether the comprehensive summary being prepared for distribution to Board employees should not be sent to the Reserve Banks along with the rules, and Mr. Johnson commented that, although the Board's rules would become effective upon publication in the Federal Register, it probably would not be possible to have the summary available immediately for distribution. However, it was proposed to reproduce and distribute certain questions and answers, based on material supplied by the Civil Service Commission, that would afford some concept as to the content of the rules and their interpretation.

There followed comments by Governor Robertson again raising the question, previously discussed at the December 21 meeting, as to the desirability of issuing rules containing provisions reading more harshly and rigidly than the manner in which it was understood they were going to be interpreted.

Mr. Hackley reviewed the legal background against which the rules had been promulgated and indicated that he felt the Civil Service Commission would be reluctant to have interpretations incorporated therein. He expressed the view that there would be little ground legally for opposing the applicability of the pertinent statutory provisions; however, if the Board so desired, he would discuss further with the staff of the Commission the possibility of including in the rules, possibly by footnote, interpretations of certain provisions such as those relating to the solicitation of contributions for gifts.

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The consensus was that this additional negotiation need not be undertaken. Accordingly, it was agreed that the rules should be transmitted to the Federal Register for publication. It was understood that copies of the questions and answers referred to by Mr. Johnson would be distributed to Board employees along with a comprehensive summary of the rules, and Messrs. Hart and Shuter were designated as deputy counselors for the purpose of advising employees on questions arising under the rules. It was agreed also to send copies of the rules and of the questions and answers to the Federal Reserve Banks with a letter suggesting that the Banks review their existing regulations in light of the Board's rules. A copy of the Board's rules, as transmitted to the Federal Register, is attached as Item No. 6. (The rules were published in the Register on March 5.)

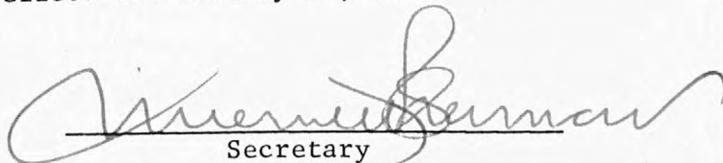
The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Boston (attached Item No. 7) approving the appointment of Dorothy J. Bradley as assistant examiner.

Memorandum from the Division of Research and Statistics dated February 28, 1966, recommending that an additional economist position be established in the Government Finance Section.

Memorandum from the Division of Research and Statistics recommending an increase in the basic annual salary of Phyllis H. Lockhart, Statistical Clerk in that Division, from \$5,577 to \$6,036, with a change in title to Statistical Assistant, effective February 28, 1966.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
2/28/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 28, 1966

Mr. Monroe Kimbrel,
First Vice President,
Federal Reserve Bank
of Atlanta,
Atlanta, Georgia. 30303

Dear Mr. Kimbrel:

This refers to your letter of February 15, 1966, regarding the penalty of \$1,288.74 incurred by the City National Bank of Miami Beach, Miami Beach, Florida, on an average daily deficiency of \$551,739 in its required reserves for the period ended January 19, 1966.

It is noted that (1) the deficiency resulted from the failure of Western Union to transmit three telegrams to the bank's New York correspondent requesting it to transfer funds to the bank's reserve account; (2) these telegrams were placed on a Telefax machine by the bank, but never delivered, and Western Union has admitted its responsibility for not dispatching the messages; (3) had the transfer been made, no deficiency in the reserve account would have occurred; and (4) the bank has had a good record in maintaining its required reserves.

In the circumstances, the Board authorizes your Bank to waive the assessment of the penalty of \$1,288.74 for the period ended January 19, 1966.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

UNITED STATES OF AMERICA
BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C.

In the Matter of the Application of
VIRGINIA COMMONWEALTH CORPORATION,
RICHMOND, VIRGINIA,
for approval of the acquisition of
voting shares of The Bank of Central
Virginia, Lynchburg, Virginia.

ORDER APPROVING APPLICATION
UNDER BANK HOLDING COMPANY ACT

There has come before the Board of Governors, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842(a)(2)) and section 222.4(a)(2) of Federal Reserve Regulation Y (12 CFR 222.4(a)(2)), an application by Virginia Commonwealth Corporation, Richmond, Virginia, a registered bank holding company, for the Board's prior approval of the acquisition of more than 80 per cent of the voting shares of The Bank of Central Virginia, Lynchburg, Virginia, to be converted from State Industrial Loan Corporation, Lynchburg, Virginia.

As required by section 3(b) of the Act, notice of receipt of the application was given to, and views and recommendation requested of,

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the Commissioner of Banking of the Commonwealth of Virginia. The Commissioner recommended approval of the application.

Notice of receipt of the application was published in the Federal Register on November 10, 1965 (30 Federal Register 14179), providing an opportunity for interested persons to submit comments and views with respect to the proposed acquisition. The time for filing such comments and views has expired, and all those received have been considered by the Board.

IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is approved, provided that the acquisition so approved shall not be consummated (a) within seven calendar days after the date of this Order or (b) later than three months after said date.

Dated at Washington, D. C., this 4th day of March, 1966.

By order of the Board of Governors.

Voting for this action: Chairman Martin, and
Governors Robertson, Shepardson, Mitchell, Daane, and Maisel.

Absent and not voting: Governor Balderston.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

APPLICATION BY VIRGINIA COMMONWEALTH CORPORATION, RICHMOND,
VIRGINIA, FOR APPROVAL OF THE ACQUISITION OF VOTING SHARES
OF THE BANK OF CENTRAL VIRGINIA, LYNCHBURG, VIRGINIA

STATEMENT

Virginia Commonwealth Corporation, Richmond, Virginia ("Applicant"), a registered bank holding company, has applied to the Board of Governors, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 ("the Act"), for permission to acquire 80 per cent or more of the voting shares of The Bank of Central Virginia, Lynchburg, Virginia ("Bank"), which, prior to the proposed acquisition of stock, is to be converted from State Industrial Loan Corporation, Lynchburg, Virginia.

Views and recommendation of supervisory authority. - As required by section 3(b) of the Act, the Board notified the Commissioner of Banking of the Commonwealth of Virginia of receipt of the application and requested his views and recommendation thereon. The Commissioner recommended approval of the application.

Statutory factors. - Section 3(c) of the Act requires the Board to take into consideration the following five factors: (1) the financial history and condition of the holding company and the banks concerned; (2) their prospects; (3) the character of their management; (4) the

convenience, needs, and welfare of the communities and the area concerned; and (5) whether or not the effect of the proposed acquisition would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

Financial history and condition, prospects, and management of Applicant and Bank. - Applicant, organized as a holding company in December 1962, has a relatively brief but sound financial history, and its present condition is considered generally satisfactory. Similarly, Applicant's prospects are considered satisfactory. Its management, composed of experienced and qualified bankers and businessmen, is considered to be well qualified and sound.

Bank, located in Lynchburg, Virginia, was organized in 1942 as an industrial loan company. Its activities have been confined to the acceptance of interest-bearing deposits - evidenced by certificates of investment - and the granting of consumer loans. In the period from year-end 1955 to year-end 1964, Bank's growth has been steady but relatively slow. Its deposits totaled \$919,000 at June 30, 1965,^{1/} representing a growth of but slightly in excess of \$650,000 from year-end 1955. On the basis of data reflecting certain aspects of Bank's operations, Bank's financial history and present condition are considered to be somewhat less than satisfactory, due principally to the limited scope

^{1/} Unless otherwise indicated, all banking data noted are as of this date.

of Bank's service rendition and the generally high risk nature of its loan activities. Bank's prospects, assuming its continued operation as an industrial loan company, appear to be limited by the fact that it does not possess the service potential of a full-service bank and is, thus, not able to meet effectively the competition offered by full-service commercial banks operating in the same area. Inasmuch as Applicant states that Bank will not be converted to a commercial bank if this application is denied, Bank's prospects as a commercial bank subsidiary of Applicant appear substantially more promising than would otherwise be the case.

With respect to the management of Bank, its chief executive officer is 75 years of age and is looking to be relieved of his executive responsibilities. Bank has no experienced, second-level management personnel capable of taking the place of or relieving Bank's executive officer. This management situation has impelled Applicant, in anticipation of the proposed acquisition of Bank, to place an officer from one of its affiliated banks in Bank. This officer has been designated Bank's chief executive officer, pending Board action on this application. Applicant has made known its intention to return this officer to Applicant's bank should this application be denied. Should Applicant's proposal be consummated, Applicant intends to further strengthen Bank's management with additional management personnel from its present subsidiary banks. Applicant has added to Bank's board of directors one of its experienced officers, who is intended to give general policy supervision to Bank.

It is the Board's judgment that the approaching retirement of Bank's principal executive officer, the lack of experienced second-line management in Bank, and the unlikelihood that Bank could attract experienced, career-minded management talent if it were to continue as an industrial loan organization, are factors that indicate less promising prospects for Bank. On the other hand, these prospects would, in the Board's judgment, be considerably improved under Applicant's proposal. Bank, as a subsidiary of Applicant, would appear assured of experienced present management and a source for capable successor management. This assurance constitutes a consideration weighing toward approval of the application.

Convenience, needs, and welfare of the communities and area concerned. - Bank's primary service area ^{2/} comprises a major portion of the City of Lynchburg and a small portion of Amherst County, which adjoins Lynchburg on the north. Applicant estimates the present population of its primary service area to be about 72,000. Lynchburg, with a population estimated at nearly 60,000, and its environs are predominantly industrial in character. Plants in this area employ about 23,000 workers in the manufacture of a variety of commercial products. Lynchburg is also a marketing center for retail and wholesale trade, particularly for the agricultural commodities coming from three adjoining counties. There are significant indications that the Lynchburg area, and the larger central

^{2/} The area from which Applicant estimates 86 per cent of Bank's deposits of individuals, partnerships, and corporations originate.

Virginia region, will experience continued population and economic growth. Applicant states its intention, through acquisition and operation of Bank, to share in and contribute to this growth. Applicant has enumerated several services, not now provided by Bank, that would be offered by Bank under Applicant's control. In view of the present limited scope and nature of Bank's operation, its operation as a commercial bank subsidiary of Applicant, offering an additional alternative source of full-banking service, would, as a matter of greater convenience, benefit the businesses and residents within Bank's service area. The record in this case gives no indication that any major banking need is going unserved within Bank's primary service area. Nor, despite the probable continued economic development and population growth in the Lynchburg area, is it likely that such future needs as may arise will not be satisfied, inasmuch as there are six banking offices located within three blocks of Bank's site and an additional 13 banking offices situated within six miles of that site. However, in view of the Board's finding that the communities and area concerned will be better and more conveniently served by Bank's operation as a subsidiary of Applicant than would be the case if it were to continue under its present form of organization and operation, the likelihood of such benefit lends some slight weight toward approval of the application.

Effect of proposed acquisition on adequate and sound banking, the public interest, and banking competition. - At June 30, 1965, Applicant controlled six banks, operating 44 banking offices with total deposits of \$267 million. Board approval has been given pursuant to the Act for

Applicant's acquisition of two additional banks that, combined, have six offices and total deposits of \$11 million. Neither of the two acquisitions approved has been consummated. Assuming consummation of those acquisitions and that of Bank, Applicant's system would be comprised of nine banks, holding deposits of \$278 million.

Applicant's acquisition of Bank would mark Applicant's initial entry into the Lynchburg area. One other bank holding company system, United Virginia Bancshares, operates therein. Its subsidiary, First National Trust and Savings Bank of Lynchburg, with total deposits of \$44 million, operates five offices, all in Lynchburg. Based on June 30, 1964 data, Applicant's acquisition of Bank would increase by less than one per cent, from 34.6 to 35.4 per cent, the share of commercial bank deposits in Lynchburg controlled by holding companies.

In view of the size of the institutions with which Bank will compete in the Lynchburg area, its control, under Applicant's ownership, of .8 per cent of the commercial bank deposits in that area offers no basis for concern with respect to a resulting undue concentration of banking resources. State-wide, Applicant's acquisition of Bank would not change Applicant's relative position of fourth place among the seven largest banking aggregations in the State.

There is no evidence of any significant competition between Bank and any of Applicant's subsidiaries, nor is there reason to believe that such will develop in the immediate future. The three closest of Applicant's banking offices are from 54 to 61 miles from Lynchburg, and

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several offices of non-affiliated banks separate Applicant's banking offices and Bank.

In addition to Bank, there are three banks in the relevant primary service area operating a total of 19 banking offices, five of which are branches of First and Merchants National Bank, Richmond, the State's largest bank. At June 30, 1964, the most recent date for which branch deposit data are available, the three banks' Lynchburg offices had deposits ranging from approximately \$30 million to \$45 million as compared to Bank's total deposits of less than \$1 million. Each of the three banks offers a complete line of banking services. At the present time, Bank's primary service area appears to contain a sufficient number of alternative banking outlets to meet the reasonable requirements of its businesses and residents. There will be no reduction in the number of such outlets upon consummation of Applicant's proposal; rather, such consummation will place an additional commercial banking outlet in the service of the communities involved. The Board can foresee no adverse competitive effect on banks in the Lynchburg area from consummation of Applicant's proposal.

On the basis of all the relevant facts as contained in the record before the Board, and in the light of the factors set forth in section 3(c) of the Act, it is the Board's judgment that the proposed acquisition would be consistent with the public interest and the application should therefore be approved.

March 4, 1966.

Item No. 4
2/28/66



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

OFFICE OF THE CHAIRMAN

February 28, 1966

The Honorable A. Willis Robertson,
Chairman,
Committee on Banking and Currency,
United States Senate,
Washington, D. C.

Dear Mr. Chairman:

In accordance with the practice followed for the past several years, there are enclosed copies of the reports made by the firm of public accountants that audited the accounts of the Board of Governors of the Federal Reserve System for the year ended December 31, 1965. These include (1) Financial Statements and Accountants' Opinion and (2) Report on Scope of Examination of Financial Statements.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures 2

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Item No. 5
2/28/66



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20561

OFFICE OF THE CHAIRMAN

February 28, 1966

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

Dear Mr. Chairman:

In accordance with the practice followed for the past several years, there are enclosed copies of the reports made by the firm of public accountants that audited the accounts of the Board of Governors of the Federal Reserve System for the year ended December 31, 1965. These include (1) Financial Statements and Accountants' Opinion and (2) Report on Scope of Examination of Financial Statements.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures 2

TITLE 12--BANKS AND BANKING

CHAPTER II--FEDERAL RESERVE SYSTEM

SUBCHAPTER A--BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

PART 264--EMPLOYEE RESPONSIBILITIES AND CONDUCT

[Pursuant to and in accordance with sections 201 through 209 of Title 18 of the United States Code, Executive Order 11222 of May 8, 1965 (30 F.R. 6469), and Title 5, Chapter I, Part 735 of the Code of Federal Regulations, Part 264 is added to Title 12 of the Code of Federal Regulations, reading as follows:]

Sec.

- 264.735-1 Purpose.
- 264.735-2 Definitions.
- 264.735-3 Effective date, distribution, and counseling.
- 264.735-4 Financial statements.
- 264.735-5 Disciplinary or remedial action.
- 264.735-6 Ethical and other conduct and responsibilities of employees.
- 264.735-7 Ethical and other conduct and responsibilities of special employees.
- 264.735-8 Statements of employment and financial interests.

Authority: The provisions of Part 264 are issued under E. O. 11222 of May 8, 1965, 30 F. R. 6469, 3 CFR, 1965 Supp.; 5 CFR 735.104.

§ 264.735-1 Purpose.

The maintenance of unusually high standards of honesty, integrity, impartiality, and conduct by employees and special employees of the Board is essential to assure the proper performance of Board business and the maintenance of confidence by citizens in their Government. The avoidance of misconduct and conflicts of interest on the part of employees and special employees of the Board through use of informed judgment is indispensable to the maintenance of these standards. To accord with these concepts, this part prescribes standards of conduct and responsibilities, and governs statements reporting employment and financial interests of the Board's employees and special employees of the Board.

§ 264.735-2 Definitions.

For the purposes of this part, including all forms promulgated for use herewith, unless the context requires otherwise:

- (a) "Board" means Board of Governors of the Federal Reserve System.
- (b) "Employee" means an officer or employee of the Board but does not include a special employee.
- (c) "Special Government employee" (herein referred to as special employee) means an officer or employee of the Board who is retained, designated, appointed, or employed to perform, with or without compensation, for not to exceed 130 days during any period of 365 consecutive days, temporary duties either on a full-time or intermittent basis.

(d) "Conflict or apparent conflict of interest" means a conflict or the appearance of a conflict between the interests of an employee or special employee and the performance of his services for the Board.

§ 264.735-3 Effective date, distribution, and counseling.

(a) This part and any amendment thereto shall be effective upon publication in the Federal Register.

(b) The Division of Personnel Administration shall distribute a comprehensive summary of this part to every employee and every special employee within 90 days after the effective date, and to each new employee and special employee at the time of entrance on duty, and distribute to every employee and every special employee each calendar year thereafter a reminder of the basic provisions of this part. A copy of this part shall be made available, upon request, to every employee and special employee by the Division of Personnel Administration, or by the Counselor or any Deputy Counselor.

(c) A Counselor and Deputy Counselors, appointed by the Board, shall be available for counseling and guidance respecting statutes and regulations affecting employee responsibility and conduct, including interpretations of the provisions of this part, and each employee and special employee shall be notified of this service by the Division of Personnel Administration at the time he receives a comprehensive summary of this part.

§ 264.735-4 Financial statements.

(a) Each employee required to do so by § 264.735-8(a) shall complete and file Form FR 264.A in accordance with § 264.735-8. Each special employee shall complete and file Form FR 264.B in accordance with § 264.735-8.

(b) All Forms FR 264.A and FR 264.B shall be received and reviewed by the Director of the Division of Personnel Administration or his designated representative to determine whether there are any conflicts or apparent conflicts of interest or other violations of this part, law, or other regulations. Information obtained from other sources shall be treated as if it was contained in the forms.

(c) All reports, forms, papers, and the information contained therein, filed pursuant to this section shall be confidential, except as the Board or the Civil Service Commission may determine for good cause shown.

§ 264.735-5 Disciplinary or remedial action.

In addition to any action that may be taken, or penalty imposed, for violations of this part, as prescribed by law:

(a) When conflicts or apparent conflicts of interest or other violations or apparent violations of this part cannot be resolved or explained to the satisfaction of the Director of Personnel Administration, he shall report the matter to the Board through the Counselor.

(b) The employee or special employee concerned shall be given an opportunity to explain such conflicts or apparent conflicts of interest before and after the matter is reported to the Board.

(c) The Board, after consideration of the matter, and after an opportunity for the employee or special employee concerned to appear, shall decide what steps are to be taken to remedy the situation. Among other steps, the Board may:

(1) Attempt to remove any conflict of interest by requiring a change in duties, disqualification for a particular assignment, or divestment of the conflicting interest by the employee or special employee;

(2) Take other corrective action; or

(3) Where corrective actions are inadequate, impose disciplinary action.

Remedial action, whether disciplinary or otherwise, shall be effected in accordance with any applicable laws, Executive orders, and regulations.

§ 264.735-6 Ethical and other conduct and responsibilities of employees.

(a) Gifts, entertainment, favors, and loans. (1) Except as provided in subparagraph (2) of this paragraph, an employee shall not solicit or accept, directly or indirectly, any gift, gratuity, favor, entertainment, loan, or any other thing of monetary value, from a person who:

(i) Has or is seeking to obtain contractual or other business or financial relations with the Board;

(ii) Conducts operations or activities that are regulated by the Board; or

(iii) Has interests that may be substantially affected by the performance or nonperformance of his official duty.

(2) Subparagraph (1) of this paragraph shall not apply to the following activities that are necessary to, or compatible with the duties and responsibilities of, the Board and its employees:

(i) The acceptance of loans from, or other financial relations with, banks or other financial institutions, in the ordinary course of business of the bank or other financial institution and the employee, governed by terms no more favorable than would be available in like circumstance to persons who are not employees of the Board, except as provided by law or regulation;

(ii) Obvious family or personal relationships (such as those between the parents, children, or spouse of the employee and the employee) when the circumstances make it clear that it is those relationships rather than the business of the persons concerned that are the motivating factors;

(iii) The acceptance of food, refreshments, or accompanying entertainment in the ordinary course of a luncheon or dinner meeting or other function or inspection tour where an employee is properly in attendance;

(iv) The acceptance of lodging on unusual occasions if an employee is properly in attendance and the circumstances thereof are reported to the Board, or if covered by paragraph (b)(5)(i) of this section;
or

(v) The acceptance of unsolicited advertising or promotional materials, such as pens, pencils, note pads, calendars, and other items of nominal intrinsic value.

(3) An employee shall avoid any action, whether or not specifically prohibited by this § 264.735-6, which might result in, or create the appearance of:

- (i) Using public office for private gain;
- (ii) Giving preferential treatment to any person;
- (iii) Impeding Board efficiency or economy;
- (iv) Losing complete independence or impartiality;
- (v) Making a Board decision outside official channels; or
- (vi) Affecting adversely the confidence of the public in the integrity of the Board and the Government.

(4) An employee shall not solicit contributions from another employee for a gift to an employee in a superior official position. An employee in a superior official position shall not accept a gift presented as a contribution from employees receiving less salary than himself. An employee shall not make a donation as a gift to an employee in a superior official position.

(5) An employee shall not accept a gift, present, decoration, or other thing from a foreign government unless authorized by Congress as provided by the Constitution and other law.

(b) Outside employment. (1) An employee shall not engage in outside employment or other outside activity not compatible with the full and proper discharge of the duties and responsibilities of his Board employment. Incompatible activities include but are not limited to:

(i) Acceptance of a fee, compensation, gift, payment of expense, or any other thing of monetary value, in circumstances in which acceptance may result in, or create the appearance of, (a) conflicts of interest or (b) the use of nonpublic information gained through, or incidental to, his Board duties, except as provided in this part; or

(ii) Outside employment which tends to impair his mental or physical capacity to perform his Board duties and responsibilities in an acceptable manner.

(iii) Outside business and teaching employment not approved by the Board and reported on Form FR 725.

(2) An employee shall not receive any salary or anything of monetary value from a private source as compensation for his services to the Board.

(3) Employees are encouraged to engage in teaching, lecturing, speaking, and writing relating to the Board's functions and responsibilities that is not prohibited by law, Executive Order 11222, or this

part. However, an employee shall not, either for or without compensation, engage in such activities that are dependent on information obtained as a result of his Board employment, except when that information has been made available to the general public or will be made available on request, or when the Board gives written authorization for the use of nonpublic information on the basis that the use is in the public interest. In any case, before any employee engages in such activities, he shall consult his Division Head for the appropriate procedure to obtain official approval.

(4) An employee shall not engage in outside employment under a State or local government, except in accordance with this paragraph (b), and Part 734 of the Civil Service Regulations (5 CFR Part 734).

(5) This paragraph (b) does not preclude an employee from:

(i) Receipt of bona fide reimbursement, unless prohibited by law, for actual expenses for travel and such other subsistence as is compatible with this part for which no Government payment or reimbursement is made. However, an employee may not be reimbursed, and payment may not be made on his behalf, for excessive personal living expenses or other personal benefits;

(ii) Participation in the activities of national or State political parties not prohibited by law; or

(iii) Participation in the affairs of, or acceptance of an award for a meritorious public contribution or achievement given by, a charitable, religious, professional, social, fraternal, nonprofit educational and recreational, public service, or civic organization.

(c) Financial interest. (1) An employee shall not:

(i) Have a direct or indirect financial interest that conflicts substantially, or appears to conflict substantially, with his duties and responsibilities with the Board;

(ii) Engage in, directly or indirectly, a financial transaction as a result of, or primarily relying on, information obtained through his employment with the Board;

(iii) Engage in speculative dealings (as distinguished from investments), whether on a margin or a cash basis, and whether in securities, commodities, real estate, exchange, or otherwise. Frequency of trading, the use of credit, and particularly transactions to take advantage of short-term price fluctuations, would be significant indications that dealings were speculative; or

(iv) Purchase equity securities of a bank, an affiliate thereof, or a Government security dealer; and an employee holding or acquiring such securities shall dispose of them as promptly as is practicable without causing undue hardship.

(2) This section does not preclude an employee from having a financial interest or engaging in financial transactions to the same extent as a private citizen not employed by the Board so long as it is not prohibited by law, Executive Order 11222, applicable regulation, or this part, including indebtedness to banks or other financial institutions on the same terms and conditions available to the employee if he was not an employee of the Board.

(d) Use of Board property. An employee shall not directly or indirectly use, or allow the use of, Board property of any kind, including property leased to the Board, for other than officially approved activities; an employee has a positive duty to protect and conserve Board property, including equipment, supplies, and other property entrusted or issued to him.

(e) Misuse of information. For the purpose of furthering a private interest, an employee shall not, except as provided in paragraph (b)(3) of this section, directly or indirectly use, or allow the use of, official information obtained through or in connection with his Board employment which has not been made available to the general public.

(f) Disclosure of unpublished information. An employee of the Board shall not disclose to any person any unpublished information of the Board obtained in the course of his work except as authorized by the Board's Rules Regarding Information, Submittals, and Requests (§ 261.2 of this chapter).

(g) Indebtedness. An employee shall pay each just financial obligation in a proper and timely manner, especially one imposed by law such as Federal, State, or local taxes. For the purpose of this section, a "just financial obligation" means one acknowledged by the employee or reduced to judgment by a court, and "in a proper and timely manner" means in a manner which the Board determines does not, under the circumstances, reflect adversely on the Board as his employer. In

the event of dispute between an employee and an alleged creditor, this section does not require the Board to determine the validity or amount of the disputed debt.

(h) Gambling, betting, and lotteries. An employee shall not participate, while on Board-owned or leased property or while on duty for the Board, in any gambling activity including the operating of a gambling device, in conducting a lottery or pool, in a game for money or property, or in selling or purchasing a numbers slip or ticket.

(i) General conduct prejudicial to the Government. An employee shall not engage in criminal, infamous, dishonest, immoral, or notoriously disgraceful conduct, or other conduct prejudicial to the Government or the Board.

(j) Miscellaneous statutory provisions. Each employee shall acquaint himself with each statute that relates to his ethical and other conduct while an employee of the Board. In particular the following statutes shall be noted:

(1) House Concurrent Resolution 175, 85th Congress, 2d Session, 72 Stat. 812, the "Code of Ethics for Government Service".

(2) Chapter 11 of Title 18, United States Code, relating to bribery, graft, and conflicts of interest. (In particular, 18 U.S.C. 212 and 213, prohibiting the offer to a bank examiner, or the acceptance by a bank examiner, of a gratuity or a loan from certain banks; \$5,000 fine and/or 1 year in prison.)

(3) The prohibition against lobbying with appropriated funds (18 U.S.C. 1913)(\$500 fine and/or 1 year in prison and removal from employment).

(4) The prohibitions against disloyalty and striking (5 U.S.C. 118p, 118r)(\$1,000 fine and/or 1 year and 1 day in prison).

(5) The prohibition against the employment of a member of a Communist organization (50 U.S.C. 784).

(6) The prohibitions against (i) the disclosure of classified information (18 U.S.C. 798, 50 U.S.C. 783)(\$10,000 fine and/or 10 years in prison); and (ii) the disclosure of confidential information (18 U.S.C. 1905)(\$1,000 fine and/or 1 year in prison, and removal from employment).

(7) The provision relating to the habitual use of intoxicants to excess (5 U.S.C. 640)(ineligibility for employment in the competitive service).

(8) The prohibition against the misuse of a Government vehicle (5 U.S.C. 78c)(suspension from duty or removal from employment).

(9) The prohibition against the misuse of the franking privilege (18 U.S.C. 1719)(\$300 fine).

(10) The prohibition against the use of deceit in an examination or personnel action in connection with Government employment (5 U.S.C. 637)(\$1,000 fine and/or 1 year in prison).

(11) The prohibition against fraud or false statements in a Government matter (18 U.S.C. 1001)(\$10,000 fine and/or 5 years in prison).

(12) The prohibition against mutilating or destroying a public record (18 U.S.C. 2071)(\$2,000 fine and/or 3 years in prison).

(13) The prohibition against counterfeiting and forging transportation requests (18 U.S.C. 508)(\$5,000 fine and/or 10 years in prison).

(14) The prohibitions against (i) embezzlement of Government money or property (18 U.S.C. 641); (ii) failing to account for public money (18 U.S.C. 643); and (iii) embezzlement of the money or property of another person in the possession of an employee by reason of his employment (18 U.S.C. 654)(fines from \$1,000 to \$10,000 and/or 1 to 10 years in prison).

(15) The prohibition against unauthorized use of documents relating to claims from or by the Government (18 U.S.C. 285)(\$5,000 fine and/or 5 years in prison).

(16) The prohibition against proscribed political activities - the Hatch Act (5 U.S.C. 118i)(possible removal from employment) and 18 U.S.C. 602, 603, 607, and 608 (fines of \$5,000 and/or 5 years in prison).

(17) The prohibition against disclosure of certain information by a bank examiner (18 U.S.C. 1906)(\$5,000 fine and/or 1 year in prison).

§ 264.735-7 Ethical and other conduct and responsibilities of special employees.

(a) Use of Board employment. A special employee shall not use his Board employment for a purpose that is, or gives the appearance

of being, motivated by the desire for private gain for himself or another person, particularly one with whom he has family, business, or financial ties.

(b) Use of inside information. A special employee shall not use inside information obtained as a result of his Board employment for private gain for himself or another person either by direct action on his part or by counsel, recommendation, or suggestion to another person, particularly one with whom he has family, business, or financial ties. For the purpose of this paragraph, "inside information" means information obtained under Board authority which has not become part of the body of public information. However, a special employee may teach, lecture, or write in a manner not inconsistent with the appropriate provisions of § 264.735-6(b) in regard to employees.

(c) Coercion. A special employee shall not use his Board employment to coerce, or give the appearance of coercing, a person to provide financial benefit to himself or another person, particularly one with whom he has family, business, or financial ties.

(d) Gifts, entertainment, and favors. (1) Except as provided in subparagraph (2) of this paragraph, a special employee, while so employed or in connection with his employment, shall not receive or solicit from a person having business with the Board anything of value as a gift, gratuity, loan, entertainment, or favor for himself or another person, particularly one with whom he has family, business, or financial ties.

(2) Subparagraph (1) of this paragraph shall not apply to the activities referred to in § 264.735-6(a)(2) which are necessary to, and compatible with the duties and responsibilities of, the Board and its special employees.

(e) Miscellaneous statutory provisions. Each special employee shall acquaint himself with each statute that relates to his ethical and other conduct while a special employee. In particular the statutes listed in § 264.735-6(j) shall be noted.

(f) Other provisions applicable to special employees. Paragraphs (d), (f), (g), and (i) of § 264.735-6 shall be applicable to special employees.

§ 264.735-8 Statements of employment and financial interests.

(a) Employees required to submit statements. Except as provided in paragraph (b) of this section, statements of employment and financial interests on Form FR 264.A shall be filed by each employee who is a Head, Associate Head, or Assistant Head of a Division or an Office of the Board (regardless of his specific title), an Adviser, or Assistant to the Board, the Board's Legislative Counsel, and the Chief Federal Reserve Examiner.

(b) Employees not required to submit statements. Neither Form FR 264.A nor Form FR 264.B is required by this section from a member of the Board of Governors. Board members are subject to separate reporting requirements under section 401 of Executive Order 11222.

(c) Time and place for submission of employees' statements. An employee required to submit a Form FR 264.A under this part shall

submit that form to the Director of the Division of Personnel Administration or his designated representative not later than:

(1) Ninety days after the effective date of this part if employed on or before the effective date; or

(2) Thirty days after his entrance on duty. However, this subparagraph does not require a submission earlier than ninety days after the effective date of this part.

(d) Supplementary statements. Changes in, or additions to, the information contained in an employee's Form FR 264.A shall be reported in a supplementary statement at the end of the quarter in which the changes occur. Quarters end March 31, June 30, September 30, and December 31. If there are no changes or additions in a quarter, a negative report is not required. However, for the purpose of annual review, a supplementary statement, negative or otherwise, is required as of June 30 each year. Supplementary reports shall be filed on Form FR 264.A, indicating the period for which the report is filed in Part I of the Form.

(e) Interests of employees' relatives. The interest of a spouse, minor child, or other member of an employee's immediate household is considered to be an interest of the employee. For the purpose of this section, "member of an employee's immediate household" means those blood relations who are residents of the employee's household.

(f) Information not known by employees. If any information required to be included on a statement of employment and financial

interests or supplementary statement, including holdings placed in trust, is not known to the employee but is known to another person, the employee shall request that other person to submit information in his behalf.

(g) Information prohibited. This section does not require an employee to submit a statement of employment and financial interests or supplementary statement of any information relating to the employee's connection with, or interest in, a professional society or a charitable, religious, social, fraternal, recreational, public service, civic, or political organization or similar organization not conducted as a business enterprise. For the purpose of this section, educational and other institutions doing research and development or related work involving grants of money from or contracts with the Board are deemed "business enterprises" and are required to be included in an employee's statement of employment and financial interests.

(h) Effect of employees' statements on other requirements. The statements of employment and financial interests and supplementary statements required of employees are in addition to, and not in substitution for, or in derogation of, any similar requirement imposed by law, order, or regulation. The submission of a statement or supplementary statement by an employee does not permit him or any other person to participate in a matter in which his or the other person's participation is prohibited by law, order, or regulation.

(1) Specific provisions of Board regulations for special employees.

(1) Except as provided in subparagraph (2) of this paragraph, each special employee shall submit on Form FR 264.B a statement of employment and financial interests which reports:

(i) All other employment; and

(ii) The financial interests of the special employee which relate either directly or indirectly to the duties and responsibilities of the special employee.

(2) The Board may waive the requirement in subparagraph (1) of this paragraph for the submission of a statement of employment and financial interests in the case of a special employee who is not a consultant or an expert when the agency finds that the duties of the position held by that special employee are of a nature and at such a level of responsibility that the submission of the statement by the incumbent is not necessary to protect the integrity of the Board and the Government. For the purpose of this paragraph, "consultant" and "expert" have the meanings given those terms by Chapter 304 of the Federal Personnel Manual, but do not include a physician, dentist, or allied medical specialist whose services are procured to provide care and service to patients.

(3) The statement of employment and financial interests required to be submitted under this paragraph shall be submitted in accordance with the provisions of paragraphs (c) and (d) of this § 264.735-8 (however, supplemental information shall be filed on Form FR 264.B).

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The provisions of paragraphs (e), (f), (g), and (h) of this § 264.735-8 shall apply to statements of employment and financial interest of special employees where appropriate.

This Part 264 has been approved by the Civil Service Commission under date of January 21, 1966.

Dated at Washington, D. C., this 28th day of February, 1966.

By order of the Board of Governors.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary

1773

Item No. 7
2/28/66

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 28, 1966

Mr. Luther M. Hoyle, Jr., Vice President,
Federal Reserve Bank of Boston,
Boston, Massachusetts. 02106

Dear Mr. Hoyle:

In accordance with the request contained
in your letter of February 21, 1966, the Board
approves the appointment of Miss Dorothy J. Bradley
as an assistant examiner for the Federal Reserve
Bank of Boston. Please advise the effective date
of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.