Minutes for March 8, 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 _____

Gov. Robertson _____

Gov. Shepardson _____

Gov. Mitchell _____

Gov. Daane _____

Gov. Maisel _____

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, March 8, 1966. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Cardon, Legislative Counsel
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Associate General Counsel
Mr. Shay, Assistant General Counsel
Mr. Sammons, Associate Director, Division of International Finance
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Leavitt, Assistant Director, Division of Examinations
Miss Wolcott, Secretary, Board Members' Offices
Messrs. Forrestal, Heyde, and Sanders of the Legal Division
Messrs. Egertson and Poundstone of the Division of Examinations

Approved letters. The following letters were approved unanimously after discussion of background information that had been made available to the Board and clarification of particular points about which members of the Board inquired. Copies of the letters are attached under the indicated item numbers.

	Item No.
Letter to Bankers International Corporation, New York, New York, granting permission to purchase shares of China Securities Investment Corporation, Taipei, Taiwan.	1

	Item No.
Letter to the Federal Reserve Bank of New York approving its acting as fiscal agent with respect to the proposed issue by the International Bank for Reconstruction and Development of Two Year Bonds of 1966.	2
Letter to the Federal Reserve Bank of Philadelphia changing the classifications of member banks in the Third District for purposes of electing Class A and Class B directors.	3
Letter to the Chairman of the Senate Committee on Banking and Currency reporting on S. 2704, a bill to provide for regulation of collective investment funds maintained by banks.	4
Letter to all Federal Reserve Bank Presidents requesting their views on possible discontinuance of printings of United States notes ($2 bills).	5

With respect to Item No. 3, Governor Robertson suggested that the Board consider the possibility of seeking legislation to change the basis of classification of member banks for the purpose of electing Class A and Class B directors, since he felt that the present formula frequently did not result in an equitable distribution of banks. Ensuing comments indicated that this point should be borne in mind for consideration at an appropriate time.

Report on competitive factors. A modification of the conclusion having been agreed upon, unanimous approval was given to the transmittal to the Comptroller of the Currency of a report on the competitive factors involved in the proposed merger of The People's Savings and Trust Company into The First National Bank of Hazleton, both of Hazleton, Pennsylvania. In the form in which approved, the conclusion read as follows:

The proposed merger of The People's Savings and Trust Company, Hazleton, with The First National Bank of Hazleton would eliminate a significant amount of competition between the two institutions and would continue a trend in the Hazleton area whereby banking resources and alternatives are being concentrated in larger institutions.

Request to maintain reduced reserves. With reference to the Board's action yesterday approving the request of Central National Bank of Jacksonville, Jacksonville, Florida, to maintain reduced reserves, Mr. Farrell noted that the Executive Committee of the Atlanta Federal Reserve Bank had expressed the view that the request should not be granted because Central National Bank was in close proximity to other downtown banks and competed with them for business, even though it was a much smaller institution. However, it developed from subsequent inquiry that this view differed from that of the Reserve Bank's Examinations Department,which led Mr. Farrell to raise the question whether the Board might want to suggest to Chairman Tarver the possibility of leaving recommendations on matters of a bank supervisory nature to the Bank's staff.

After a brief discussion of the diverse practices followed by Federal Reserve Banks in bringing such matters before their directors, there was general agreement that the question of procedure at Atlanta might be discussed informally with Chairman Tarver or President Patterson. However, the view also was expressed that it would not be advisable to issue any formal instruction to the Reserve Banks on what precise procedures should be followed in matters of this kind.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

Salary increase

Robert I. Stewart, Messenger, Board Members' Offices, from $4,846 to $4,975 per annum, effective March 13, 1966.

Permission to engage in outside activity

Harlow D. Osborne, Chief, Consumer Credit and Finances Section, Division of Research and Statistics, to serve for 3-1/2 weeks while on annual leave as consultant to the Joint Center for Urban Studies of Massachusetts Institute of Technology and Harvard University.

Secretary

Item No. 1
3/8/66

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 8, 1966.

Bankers International Corporation,
16 Wall Street,
New York, New York. 10015

Gentlemen:

As requested in your letter of February 25, 1966, the Board of Governors grants consent for your Corporation to purchase and hold approximately 12,000 shares, par value N.T.dollars 1,000 each, of China Securities Investment Corporation, Taipei, Taiwan, at a cost of approximately US$300,000, provided such stock is acquired within one year from the date of this letter.

The foregoing consent is given with the understanding that the investment now being approved, combined with other foreign loans and investments of your Corporation and Bankers Trust Company, will not cause the total of such loans and investments to 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.

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

Item No. 2
3/8/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 8, 1966

Mr. H. A. Bilby, Vice President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Bilby:

This refers to your letter of March 2, 1966, and enclosures, concerning the proposed issue by the International Bank for Reconstruction and Development of its Two Year Bonds of 1966, due March 15, 1968, in an aggregate principal amount of $100 million. In this regard, you state that it is proposed to amend Schedule A of the Fiscal Agency Agreement, dated as of February 6, 1950, between International Bank and your Bank to include the bonds in question.

The Board of Governors approves of your Bank acting as fiscal agent with respect to the proposed bond issue, and approves the execution and delivery by your Bank of an agreement with the International Bank substantially in the form of the draft of Supplement No. 27 to the Fiscal Agency Agreement enclosed with your letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 3
3/8/66

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 8, 1966

Mr. Willis J. Winn,
Deputy Chairman of the Board,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania. 19101

Dear Mr. Winn:

In accordance with the recommendation in your letter of February 17, 1966, the Board of Governors has changed the classifications of member banks in the Third District for purposes of electing Class A and Class B directors to the following:

Group	Banks with capital and surplus of:
1	$5,000,000 and over.
2	$1,000,000 to less than $5,000,000.
3	Less than $1,000,000.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 4
3/8/66

OFFICE OF THE CHAIRMAN

March 8, 1966

The Honorable A. Willis Robertson, Chairman,
Committee on Banking and Currency,
United States Senate,
Washington, D. C. 20510

Dear Mr. Chairman:

This is in response to your request for the Board's views on S. 2704, a bill to provide for the regulation of collective investment funds maintained by banks.

The Board understands that this proposal is designed to resolve a jurisdictional conflict between the Comptroller of the Currency and the Securities and Exchange Commission by exempting from the federal securities laws a fund established by a bank for the collective investment of moneys held by it in managing agency accounts or in pension trusts that are exempt from federal income tax ("Smathers-Keogh plans").

Such proposal is similar to a bill that was introduced in the 88th Congress and on which the Board reported to you by letter of March 26, 1964. The adverse position taken by the Board was based upon its belief that investor protection as to all investments of a similar nature can be best effected by a uniform statutory and regulatory plan administered by a single Governmental agency.

Although S. 2704 contains more restrictive provisions with respect to "managing agency funds" than were contained in its predecessor, an investment in such a fund nevertheless would be similar to an investment in an open-end investment company, which is subject to the federal securities laws administered by the Securities and Exchange Commission. In the Board's opinion such managing agency funds and open-end investment companies should be governed by one set of rules (to the extent feasible) administered by one agency - the Securities and Exchange Commission.

The Board accordingly recommends against enactment of S. 2704.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

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

Item No. 5
3/8/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 8, 1966.

Dear Sir:

In a letter to Chairman Martin dated February 28, 1966, Secretary Fowler advised that the Bureau of the Budget eliminated from the 1967 Budget the Treasury's normal request for funds for printing United States notes, and that continuing pressures for budget reductions were likely to make expenditures for United States notes vulnerable in later years.

Possible steps that might be taken in the light of this situation are discussed in the following paragraphs quoted from Secretary Fowler's letter.

> As you know, the total demand for currency in the $2 denomination has been met by United States notes. Although we can, with your help and with some lowering of the standard of fitness, meet the demand for $2 currency in fiscal year 1967 without buying any new $2 United States notes, it appears to me that it would be desirable to consider the alternatives of abandoning the $2 denomination or the issuance of $2 Federal Reserve notes.
>
> If the $2 denomination is abandoned or a $2 Federal Reserve note is introduced, the statutory requirement that $322 million of United States notes remain outstanding could be fulfilled through the use of the $100 denomination, which would require annual budget expenditures only a fraction of the size of those necessary to maintain the required amount outstanding through the $2 and $5 denominations.

It is understood that the reference to "your help" includes the possibility of some interoffice shipments between the Reserve Banks and Branches.

Secretary Fowler has asked for the Board's views on the alternatives he mentioned, and in this connection the Board would like to have from your Bank comments concerning the following questions:

(1) Would banks or other business interests in your District be significantly inconvenienced or displeased by the discontinuance of further printings of any $2 bills?

(2) Would your Bank favor such discontinuance?

(3) Would your Bank favor printings of $2 Federal Reserve notes?

(4) Does your Bank have any other views on the subject which may be of help?

Very truly yours,

Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.