

Minutes for April 4, 1966

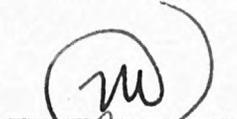
To: Members of the Board
 From: Office of the Secretary

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



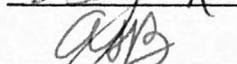
Gov. Daane



Gov. Maisel



Gov. Brimmer



Minutes of the Board of Governors of the Federal Reserve System
on Monday, April 4, 1966. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Robertson, Vice Chairman
Mr. Shepardson
Mr. Daane
Mr. Maisel
Mr. Brimmer

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Senior Adviser to the Board and
Director, Division of International Finance
Mr. Holland, Adviser to the Board
Mr. Solomon, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Solomon, Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations
Miss Eaton, General Assistant, Office of the
Secretary

Messrs. Brill, Partee, Axilrod, and Bernard
of the Division of Research and Statistics

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

Money market review. Mr. Bernard commented on the Government securities market, after which there was a discussion during which it was agreed that the Presidents of the Reserve Banks would be asked to comment at the next meeting of the Federal Open Market Committee on indications of any recent changes in plans of corporations with regard to fixed capital investments. Mr. Baker then reported on foreign exchange market developments, distributing in this connection a table showing bid rates for Euro-dollar deposits.

4/4/66

-2-

All members of the staff except Messrs. Sherman, Kenyon, Molony, Fauver, Solomon (Examinations), and Leavitt, and Miss Eaton then withdrew from the meeting and Messrs. O'Connell and Shay, Assistant General Counsel, and Mr. Egertson, Supervisory Review Examiner, Division of Examinations, entered the room.

Discount rates. The establishment without change by the Federal Reserve Banks of New York and San Francisco on March 31, 1966, and by the Federal Reserve Banks of Atlanta and Minneapolis on April 1, 1966, 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.

Approved items. The following items, copies of which are attached to these minutes under the respective numbers indicated, were approved unanimously after consideration of background material that had been made available to the Board and clarification of points of information about which members of the Board inquired:

	<u>Item No.</u>
Letter to Rhode Island Hospital Trust Company, Providence, Rhode Island, approving the establishment of a branch at Kingston Road and Main Street, Wakefield, in place of an existing branch at 10 Robinson Street.	1
Letter to First National City Bank, New York, New York, granting an extension of time to establish a branch in Santiago, Chile.	2

4/4/66

-3-

	<u>Item No.</u>
Letter to First National City Bank, New York, New York, granting a further extension of time to establish a branch in Callao, Peru.	3
Letter to Worthen Bank and Trust Company, Little Rock, Arkansas, approving the establishment of a branch at West 12th Street and University Avenue.	4
Letter to Peoples State Bank, Artesia, New Mexico, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	5

Report on competitive factors. A report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of Peoples Bank of Hawthorne, Hawthorne, New Jersey, into The Prospect Park National Bank, Prospect Park, New Jersey, was approved unanimously for transmittal to the Comptroller in a form in which the conclusion was stated as follows:

Peoples Bank of Hawthorne and The Prospect Park National Bank are situated about 2 miles apart, with no intervening banking facilities. While interlocking ownership between the two banks has apparently tended somewhat to limit competition between them, consummation of the proposed merger would have an adverse impact on competition by eliminating existing and potential competition between the two institutions.

Philadelphia bank mergers. Reference was made to a letter from the Comptroller of the Currency dated March 7, 1966, regarding the Board's report on the competitive factors involved in the recently approved proposed merger of Provident National Bank and Central-Penn National Bank, both of Philadelphia, Pennsylvania. In the letter,

4/4/66

-4-

which the Comptroller had released to the press, the Comptroller criticized the Board's opinion that the proposed merger would have an adverse effect on competition and indicated that the Board's position was irreconcilable with its previous approval of a merger of two other Philadelphia banks (Fidelity-Philadelphia Trust Company and Liberty Real Estate Bank and Trust Company). The Justice Department had filed suit to block the Provident merger, charging that it would violate the Clayton Act.

The question raised at this meeting was whether the Board should reply to the Comptroller's letter, and after some discussion the Vice Chairman suggested that a draft of letter and a staff memorandum on the issues involved should be helpful to the Board in considering the question. It was understood that the staff would prepare such material.

CEMLA lectures. The Board approved the recommendation in Mr. Young's memorandum of March 30, 1966, that Lyle E. Gramley, Associate Adviser, Division of Research and Statistics, be made available to deliver lectures on current monetary problems in the United States at the Fourteenth Training Program of the Center for Latin American Monetary Studies. It was understood that these lectures would be given in August 1966. Mr. Gramley's travel to Mexico City for the purpose was authorized, with per diem as provided by the Standardized Government Travel Regulations.

4/4/66

-5-

Study of foreign operations of U.S. banks. After consideration of a memorandum of March 21, 1966, from Mr. Dahl, Chief, Special Studies and Operations Section, Division of International Finance, the Board approved a proposal, in connection with the current study of foreign operations of U.S. banks, for visits to selected foreign countries for the purpose of on-the-spot observation of the operations of branches of American banks and familiarization with the conditions under which such branches operate. The contemplated schedule of visits was as follows:

1. A trip of approximately four weeks from mid-May to mid-June that would include visits to branches in Tokyo, Hong Kong or Singapore, Beirut, and London, with possibly some other European stop. The trip would be made by Mr. Klopstock, Senior Economist of the Federal Reserve Bank of New York, who would be accompanied on the Far Eastern portion of the trip by Mr. Bjelke of the New York Reserve Bank.
2. A trip of approximately two weeks later in the summer to South America that would include visits to branches in Brazil, Argentina, Panama, and possibly one other Central American country. The trip would be made by Mr. Klopstock, accompanied by Mr. Goodfellow of the Board's Division of Examinations.

The proposal was approved with the understanding that Mr. Dahl would accompany Mr. Klopstock on the first of these trips. In this connection, the Board authorized the necessary foreign travel by him and by Mr. Goodfellow.

The meeting then adjourned.

4/4/66

-6-

Secretary's Notes: Attached as Item No. 6 is a copy of a letter sent under date of April 1, 1966, to the Honorable Carl B. Stokes, House of Representatives of the State of Ohio. This letter was sent pursuant to the understanding at the meeting on March 30, 1966, that a single reply would be sent to the letters from Mr. Stokes to the individual Board members.

With the approval of Governor Robertson, acting under the authority vested in him by the Board for administration of Federal Reserve functions related to the conduct of the voluntary foreign credit restraint effort, a part of the President's balance of payments program, a change in the voluntary program in its application to non-bank financial institutions was announced on April 1, 1966. Attached as Item No. 7 is a copy of a press release issued on that date indicating the nature of the change.

A letter was sent today to First National City Bank, New York, New York, acknowledging receipt of notice of its intent to establish an additional branch in Quito, Ecuador, to be located in the northern section of the city. The letter noted that start-up costs for the new branch would be approximately \$25,000, which would be supplied by First National City Bank's organization in Ecuador, and that no additional capital investment would be required.

A letter was sent today to International Bank of Commerce, Seattle, Washington, acknowledging receipt of notice of its intent to establish an additional branch in Hong Kong, to be located at No. 26, Tseuk Luk Street, San Po Kong, Kowloon. The letter noted that establishment of the branch would not require an additional capital expenditure and that the expenses of opening the branch would be nominal.

4/4/66

-7-

On April 1, 1966, Governor Shepardson approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

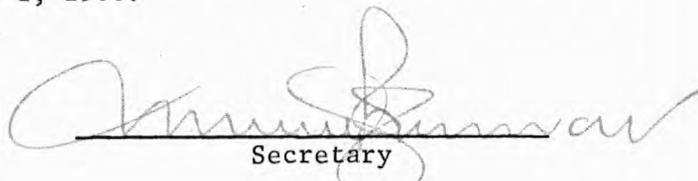
Appointment

Karella Gumpert as Editorial Clerk, Division of Research and Statistics, with basic annual salary at the rate of \$5,352, effective the date of entrance upon duty.

Acceptance of resignations

Kendall R. Free, Digital Computer Programmer, Division of Examinations, effective at the close of business April 1, 1966.

Edward H. Rastatter, Economist, Division of Data Processing, effective at the close of business April 1, 1966.



Secretary

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 4, 1966

Board of Directors,
Rhode Island Hospital Trust
Company,
Providence, Rhode Island.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Rhode Island Hospital Trust Company, Providence, Rhode Island, at the intersection of Kingston Road and Main Street, Wakefield, Rhode Island, provided such branch is established within one year from the date of this letter and provided operations at the bank's existing office at 10 Robinson Street, Wakefield, are discontinued simultaneously with the opening of the new office.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2
4/4/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 4, 1966

First National City Bank,
399 Park Avenue,
New York, New York. 10022

Gentlemen:

Reference is made to your letter of March 18, 1966, transmitted through the Federal Reserve Bank of New York, referring to your letter of March 23, 1965, advising, pursuant to Regulation M, of your intention to establish a branch in the Providencia district of Santiago, Chile. The Board's letter of April 16, 1965, acknowledged your letter of March 23, 1965, and stated that unless the branch is actually established and opened for business on or before May 1, 1966, it will be deemed that plans for its establishment have been abandoned, in which event authority to establish the branch under the notice furnished in your letter of March 23, 1965, will automatically terminate.

It is noted from your letter of March 18, 1966, that, due to delays in the construction of premises, the proposed branch will not be able to open as scheduled. You further state that you expect the branch to open for business during June, 1966. Accordingly, the Board extends to November 1, 1966, the date specified in line two of paragraph two of the Board's letter of April 16, 1965.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

Item No. 3
4/4/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 4, 1966

First National City Bank,
399 Park Avenue,
New York, New York. 10022

Gentlemen:

Reference is made to your letter of March 24, 1966, transmitted through the Federal Reserve Bank of New York, referring to your letter of September 3, 1965, which advised of a delay in the opening of your branch in Callao, Peru. The Board's letter of September 14, 1965, extended to April 1, 1966, the time within which the branch might be opened.

You state that, due to continued delays in the preparation of premises, the branch has not yet been able to open for business. Accordingly, the time within which the Callao, Peru, branch may be opened for business is extended to October 1, 1966.

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. 4
4/4/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 4, 1966

Board of Directors,
Worthen Bank and Trust Company,
Little Rock, Arkansas.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Worthen Bank and Trust Company, Little Rock, Arkansas, of a branch at the intersection of West 12th Street and University Avenue, Little Rock, Arkansas, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 5
4/4/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 4, 1966

Board of Directors,
Peoples State Bank,
Artesia, New Mexico.

Gentlemen:

The Federal Reserve Bank of Dallas has forwarded to the Board of Governors two letters both dated March 9, 1966, signed by Executive Vice President L. W. Brummett, together with the accompanying resolution, signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

The Board of Governors waives the requirement of six months' notice of withdrawal. Under the provisions of Section 208.10(c) of the Board's Regulation H, your institution may accomplish termination of its membership at any time within eight months from the date that notice of intention to withdraw from membership was given. Upon surrender to the Federal Reserve Bank of Dallas of the Federal Reserve stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon.

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

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

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 6
4/4/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 1, 1966.

The Honorable Carl B. Stokes,
House of Representatives,
Cleveland, Ohio. 44113

Dear Mr. Stokes:

This will acknowledge seven identical letters of March 16, 1966, one addressed to each member of the Board of Governors of the Federal Reserve System. In these letters you question the legality and propriety of a bank voting shares of its own stock held by it in a fiduciary capacity.

No Federal law prohibits a State member bank from holding or voting shares of its own stock. When, in the examination of State member banks, a patent violation of either Federal or State law is evident, the matter is brought to the attention of the bank and corrective action is requested. However, rather than being a patent violation, there appears to be substantial legal controversy with respect to the practice of voting its own shares by an Ohio bank. Although you indicate that section 1701.47(C) of the Ohio Revised Code prohibits such action, another provision (as I am sure you know) of the Ohio Code, section 1701.46(B), expressly permits fiduciaries to vote stock held by them in a fiduciary capacity. The issue as to which statutory provision controls is obviously a question of State law to be resolved by the Ohio courts and/or the Ohio legislature, and it would be inappropriate for the Federal Reserve System to express an opinion or take a position with respect thereto, at this time.

We understand from press reports that The Cleveland Trust Company has instituted a declaratory judgment suit in the Ohio courts for a judicial determination of the legality of the practice at issue. We shall await the court's decision with interest.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



FEDERAL RESERVE

press release

Item No. 7 1180
4/4/66

For immediate release.

April 1, 1966.

The Board of Governors of the Federal Reserve System today announced a change in the voluntary foreign credit restraint program as it applies to nonbank financial institutions. Governor J. L. Robertson, to whom the Board has assigned primary responsibility for the program, said that the change makes it possible for these institutions to acquire foreign equity securities presently held by U. S. investors without regard to the guidelines on long-term lending and investing abroad.

Formerly, the guidelines were viewed as applying to any investment in foreign securities, regardless of whether acquired from foreign sources or from other U. S. investors. In the long-term area, the guidelines request that investment in developed countries, other than in Canada and Japan, be limited during 1966 to not more than 105 per cent of the total amount held on September 30, 1965. Within the developed countries category, moreover, institutions are requested to avoid any net increase of investment in Continental Western Europe.

The intent of the guidelines is to restrain capital outflows for the purpose of improving the balance of payments position of the United States, but there is evidence that they are also having an unintentionally harmful effect on domestic markets for the large pool of foreign shares already held by U. S. investors. Therefore, the purpose of the guidelines revision is to exempt, under suitable conditions,

the trading in such securities from guidelines coverage. Given the safeguards provided for, it is felt that the change will not stimulate capital outflows in this area.

The text of the letter directed by the Federal Reserve Banks to all nonbank financial institutions cooperating in the voluntary program, which explains the change in guidelines coverage, follows:

"The guidelines for 1966 on the foreign lending and investment activities of nonbank financial institutions, issued last December 3, request (in guideline #3) that long-term loans and investments in developed countries (other than Canada and Japan) be limited to not more than 105 per cent of the amounts held as of September 30, 1965. Within this developed countries category, moreover, institutions are requested to avoid any net increase of long-term investments in Continental Western Europe.

In administering the voluntary foreign credit restraint program, we have viewed these guidelines as applying to (among other assets) any net acquisitions of the long-term securities of foreign-domiciled companies, regardless of whether the securities are acquired from foreign sources or from other U. S. investors. It has come to our attention, however, that this interpretation may be having unintentionally harmful effects on domestic markets for the large pool of foreign equity securities already owned by and traded among U. S. investors.

The intent of the voluntary program is to restrain capital outflows for the purpose of improving our nation's balance of payments, and not to inhibit the marketability of foreign equities already held by U. S. investors. Therefore, we are amending the treatment under guideline #3 of the affected securities--namely, American-owned equity securities of companies in developed countries other than Canada and Japan. The conditions under which transactions in such securities may take place without regard to the guidelines are specified below; we are confident that the safeguards provided for will prevent outflows of capital as a result of the change.

1. Institutions may acquire the equity securities of companies domiciled in developed countries (other than Canada and Japan, where there are no restrictions) without regard to the guidelines, provided that evidence in writing is obtained showing that such stock was held by a U. S. investor as of March 31, 1966.

2. Institutions that have made net purchases of such equity securities in the period from September 30, 1965 to March 31, 1966, may consider these purchases to have been exempt from guideline ceilings, provided that the shares were acquired with Interest Equalization Tax certificates of American ownership attached.
3. Institutions wishing to sell such equity securities to other U. S. investors may do so, except that to the extent transactions in these securities reduce total holdings below the base date amount (September 30, 1965), that amount will be reduced by the size of the net liquidation.
4. Institutions taking advantage of these special provisions will be asked to report supplementary data on transactions in foreign equities for the purpose of adjusting base date holdings and determining compliance with this aspect of the guidelines. The first such report--to accompany the regular report on form FR 392 to this Bank--will be requested for the quarter ended June 30."