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 Friday, May 6, 1966. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Robertson, Vice Chairman  
Mr. Sheppardson  
Mr. Mitchell  
Mr. Maisel  
Mr. Brimmer  
Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Broida, Assistant Secretary  
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  
Miss Eaton, General Assistant, Office of the Secretary  
Mr. Morgan, Staff Assistant, Board Members' Offices


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

Money market review. Mr. Brill reported on certain changes proposed to be made by the staff in the presentation and documentation of the money market reviews. One change, already made, involved a revision of the table affording perspective on bank reserve utilization. Mr. Axilrod commented on the format of that table, copies of which had been distributed, following which there was discussion of the assumptions underlying staff projections reflected therein. Mrs. Peskin then reported on the Government securities market; Mr. Ettin commented
on bank credit developments and, with the aid of distributed charts, analyzed trends in time and savings deposits; and Mr. Hayes, after reviewing the foreign exchange markets, commented on the new British budget, a summarization of which had been distributed. Tables also had been distributed affording perspective on the money and capital markets.

All members of the staff then withdrew except Messrs. Sherman, Kenyon, Molony, Solomon (Examinations), and Sammons, and Miss Eaton and the following joined the meeting:

Mr. Hackley, General Counsel
Messrs. O'Connell and Shay, Assistant General Counsel
Messrs. Leavitt and Smith, Assistant Directors, Division of Examinations
Miss Hart and Mr. Forrestal, Senior Attorneys, Legal Division
Messrs. Egertson, Supervisory Review Examiner, and Poundstone, Review Examiner, Division of Examinations
Mr. Gedanken, Statistician, Division of Data Processing

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on May 3 and by the Federal Reserve Banks of New York, Philadelphia, Chicago, and San Francisco on May 5, 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:
Letter to Bankers International Corporation, New York, New York, granting consent to certain transactions related to the financing of Bankers International (Luxembourg) S.A., a wholly-owned subsidiary.

Letter to Trust Company of Morris County, Morristown, New Jersey, approving the establishment of a branch in Madison (coincident with the closing of another branch in that community) and urging a strengthening of capital structure.

Letter to Old Kent Bank and Trust Company, Grand Rapids, Michigan, approving the establishment of a branch in Paris Township.

Letter to Old Kent Bank and Trust Company, Grand Rapids, Michigan, approving the establishment of a branch in Alpine Township.

Letter to United California Bank, Los Angeles, California, approving the establishment of a branch at Sunset Boulevard and Vermont Avenue.

Letter to United California Bank, Los Angeles, California, granting an extension of time to establish a branch in Monterey.

Letter to the Securities and Exchange Commission regarding whether extensions of credit in a joint account between two brokerage firms were subject to the margin requirements of Regulation T. (It was understood that an interpretation based on the letter would be published in the Federal Register and the Federal Reserve Bulletin.)

Examination of System Open Market Account. There had been distributed a memorandum from the Division of Examinations dated May 4, 1966, describing changes proposed to be made in the procedures followed in examining the System Open Market Account.
The Board expressed agreement with the revised procedures.

Request from Central Bank of Tanzania. Governor Shepardson reported a request from the Central Bank of Tanzania for help in locating an economist who might be employed for as much as two years to help organize that Bank's research department.

It was agreed that it would be appropriate to assist the Bank in attempting to locate a qualified person.

The meeting then adjourned.

Secretary's Notes: On May 5, 1966, there was sent to Chairman Robertson of the Senate Banking and Currency Committee a letter (copy attached as Item No. 8) relating to S. 1308, a bill to provide for local destruction of unfit Federal Reserve notes.

On May 5, 1966, Governor Shepardson approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

Appointment

Dolores H. Lynch as Statistical Assistant, Division of Research and Statistics, with basic annual salary at the rate of $5,181, effective the date of entrance upon duty.

Acceptance of resignation

Kate G. Mogerman, Draftsman, Division of Data Processing, effective at the close of business May 13, 1966.

Governor Shepardson today approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:
5/6/66

Appointments

Walter E. Lee as Laborer, Division of Administrative Services, with basic annual salary at the rate of $3,507, effective the date of entrance upon duty.

John Petersen as Summer Research Assistant, Division of Research and Statistics, with basic annual salary at the rate of $6,476, effective the date of entrance upon duty.

Elizabeth J. Stannard as Substitute Maid, Division of Personnel Administration, with compensation at the rate of $1.74 per hour when actually employed, effective the date of entrance upon duty.

Salary increases, effective May 8, 1966

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<th>Name and title</th>
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<th>Basic annual salary</th>
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<td>Evelyn Hurley, Economist</td>
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Item No. 1
5/6/66

May 6, 1966.

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

Gentlemen:

As requested in your letter of April 12, 1966, the Board of Governors grants consent to Bankers International (Luxembourg), societe anonyme de participations financieres ("BILSA") to increase its capital to Belgian Francs 200,000,000 (US$4,000,000 equivalent), consisting of 200,000 shares, par value Belgian Francs 1,000 per share. Please advise the Board of Governors when the capital increase has been effected, furnishing a copy of the amended Article 5 of the Articles of Incorporation.

The Board of Governors grants consent to Bankers International Corporation ("BIC") to purchase and hold 100,000 additional shares of BILSA, at a cost of approximately US$2,000,000, provided such shares are acquired within one year from the date of this letter. The Board also grants consent for BIC to transfer to BILSA up to approximately US$500,000 as a contribution to capital.

The Board approves the purchase and holding of shares of BILSA within the terms of the above consent in excess of 10 per cent of BIC's capital and surplus.

The foregoing consent is given with the understanding that the investment now being approved, combined with other foreign loans and investments of BIC 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 and that due consideration is being given to the priorities contained therein. The Board considers that compliance with the priorities expressed in Guideline 4 would require that total nonexport credits to developed countries in Continental Western Europe not exceed the amount of such loans and investments as of the end of 1965, unless this can be done without inhibiting the bank's ability to meet all reasonable requests for priority credits within the overall target.
In accordance with your request and on the basis of information furnished, the Board of Governors grants consent to BILSA to issue up to $20,000,000 of 20-year guaranteed debentures, which are to be convertible into the common stock of BT New York Corporation and are to be sold outside the United States.

You state that it is contemplated that BIC and BILSA will continue as a subsidiary and sub-subsidiary, respectively, of Bankers Trust Company, New York ("BTCo"). In view of an interpretation of the Board of Governors published in the Federal Register, March 11, 1966, Section 6(a)(1) of the Bank Holding Company Act of 1956 would not prohibit BTCo, as a banking subsidiary of a bank holding company, from retaining its existing investment in BIC or making further investments in the capital stock, bonds, debentures or other obligations of BIC.

Your letter indicated it may become necessary for BTCo to make a capital contribution up to $2,000,000 to BIC, in the event BIC is unable to utilize existing foreign assets, in lieu of cash, to effect the capital increase of BILSA. Such proposed capital contribution by BTCo, as described, does not appear to require prior approval of the Board of Governors.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.
Board of Directors,  
Trust Company of Morris County,  
Morristown, New Jersey.  

Gentlemen:  

The Board of Governors of the Federal Reserve System approves the establishment by Trust Company of Morris County, Morristown, New Jersey, of a branch in the Madison Plaza Shopping Center, Madison, Morris County, New Jersey, provided the branch is established within one year from the date of this letter, and further providing the existing Madison Main Street office, 228 Main Street, is simultaneously closed.

It is the Board's understanding that consideration is being given to means to strengthen your bank's capital position. The Board urges that plans in this regard be formulated in the near future in order that growth of your bank will be on a sound basis.

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 the 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 Directors,
Old Kent Bank and Trust
Company,
Grand Rapids, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Old Kent Bank and Trust Company, Grand Rapids, Michigan, of a branch in the vicinity of the intersection of 28th Street, S. E., and East Beltline Avenue, S. E., Paris Township, Kent County, Michigan, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Old Kent Bank and Trust Company, Grand Rapids, Michigan, of a branch in the vicinity of the intersection of Alpine Avenue, N.W., and Lamoreaux Drive, N.W., Alpine Township, Kent County, Michigan, 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 Directors,
United California Bank,
Los Angeles, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by United California Bank, Los Angeles, California, of a branch in the vicinity of the northwest corner of Sunset Boulevard and Vermont Avenue, Los Angeles, California, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

Gentlemen:

The Board of Governors of the Federal Reserve System extends to May 18, 1967, the time within which United California Bank, Los Angeles, California, may establish a branch in the vicinity of the intersection of Alvarado and Franklin Streets, Monterey, California.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.
Mr. Robert Block, Chief Counsel,
Division of Trading and Markets,
Securities and Exchange Commission,
Washington, D. C. 20549

Dear Mr. Block:

This refers to your letter of July 14, 1965, in which you ask for the Board's views as to whether extensions of credit in a joint account between two brokerage firms, Henry J. Richter & Co. ("Richter"), a member of the Midwest Stock Exchange, and Collins, Eatherton & Associates, Inc. ("Collins"), a member firm of the National Association of Securities Dealers ("NASD"), are subject to the margin requirements of the Board's Regulation T, "Credit by Brokers, Dealers, and Members of National Securities Exchanges". In your letter, you state that similar joint accounts are not uncommon, and that so far as you have been able to learn, the margin requirements of the regulation are not consistently applied to extensions of credit in the accounts. For this reason, you ask that the Board consider whether it would be appropriate to circulate its views in such a fashion that they would come to the attention of the broker-dealer community as a whole.

According to the materials furnished with your letter, Collins and Richter, during the latter part of 1964, entered into an oral agreement to participate in a joint account with respect to certain securities transactions. Profits and losses were to be shared equally. Richter was to carry and manage the account.

When the account was opened, Collins deposited $5,000 with Richter, and has made no further deposit to the account. Both firms have the privilege of buying and selling specified securities
in the account, but it appears that Richter initiates most of the transactions therein. Trading volume may run from half a million to a million dollars in a month. Richter carries the "official" ledger record of the account, and sends Collins a monthly statement with a complete record of all transactions effected during the month.

Analysis of the monthly statement permits Collins to determine the amount of realized and unrealized profit or loss in the account, and it is then customary for Collins to forward a check to Richter for 50 per cent of the loss, or to receive a check from Richter for 50 per cent of the profits. No attempt is made to conform the transactions to applicable margin requirements of Regulation T.

Section 220.3 of Regulation T provides that

"All financial relations between a creditor and a customer, whether recorded in one record or in more than one record, shall be included in and be deemed to be part of the customer's general account with the creditor, . . . ."

and section 220.2(c) defines the term "customer" to include

"... any person, or any group of persons acting jointly, ... to or for whom a creditor is extending or maintaining any credit . . . ."

In the course of a normal month's operations, both Collins and Richter are at one time or another extending credit to the joint account. Consequently, the account would be a "customer" within the above definition.

Section 220.6(b) provides, with respect to the account of a joint adventure in which the creditor participates, that

"... the adjusted debit balance of the account shall include, in addition to the items specified in section 220.3(d), any amount by which the creditor's contribution to the joint adventure exceeds the contribution which he would have made if he had contributed merely in proportion to his right to share in the profits of the joint adventure."

In addition, the final paragraph of section 220.2(c), states that the definition of "customer"

"... includes any joint adventure in which a creditor participates and which would be considered a customer of the creditor if the creditor were not a participant."
The above provisions clearly evince the Board's intent that the regulation shall cover trading accounts in which the creditor participates. If additional confirmation were needed, it is supplied by the fact that the Board found it needful specifically to exempt from ordinary margin requirements credit extended to certain joint accounts in which a creditor participates. These include the account in which transactions of odd-lot dealers may be financed under section 220.4(f)(4), and the specialist's account under section 220.4(g). Accordingly, the Board concludes that the joint account between Richter and Collins is a "customer" within the meaning of the regulation, and that extensions of credit in the account are subject to margin requirements.

If Collins and Richter made contributions of capital to the joint adventure in proportion to their right to share in the profits, in accordance with section 220.6(b) of the regulation, it might be possible to continue the transactions with comparatively slight variation from present practices. On the other hand, if Collins is not prepared to make such a contribution, the facts as presented do not suggest any reason why the transactions should receive special concessions that are not available for other trading activities under the regulation.

An interpretation embodying the substance of this letter will appear shortly in the Federal Register and the Federal Reserve Bulletin.

Very truly yours,

(Signed) Merritt Sherman

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

Dear Mr. Chairman:

You have asked for the Board's views with respect to the amendment to S. 1308 adopted by the House. This legislation is urgently needed, as you know, to avoid inefficiency in destruction of unfit Federal Reserve notes, and the Board recommends that the Senate agree to the House amendment.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.