

Minutes for August 12, 1966

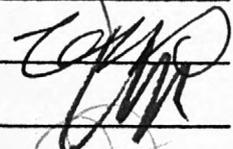
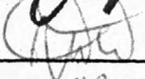
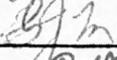
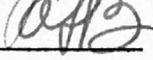
To: Members of the Board

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></u>
Gov. Robertson	<u></u>
Gov. Shepardson	<u></u>
Gov. Mitchell	<u></u>
Gov. Daane	<u></u>
Gov. Maisel	<u></u>
Gov. Brimmer	<u></u>

Minutes of the Board of Governors of the Federal Reserve System on Friday, August 12, 1966. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Robertson, Vice Chairman
Mr. Shepardson
Mr. Mitchell
Mr. Daane
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. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Solomon, Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Furth, Consultant
Mr. Morgan, Staff Assistant, Board Members'
Offices

Messrs. Brill, Partee, Bernard, Ettin, Fry, and
Kelty, and Mrs. Peskin and Miss Stockwell of
the Division of Research and Statistics

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

Money market review. Mrs. Peskin reviewed developments in the Government securities market, Mr. Fry commented on the projections contained in a distributed table affording perspective on bank reserve utilization, and Mr. Gemmill discussed sterling developments, other foreign exchange market developments, and the London gold market. Copies of the several tables and charts distributed in connection with today's review have been placed in the Board's files.

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After discussion based on the foregoing presentations, with particular reference to the results of recent System open market operations, all members of the research staff who had been present except Mr. Sammons withdrew from the room, as did Messrs. Holland, Furth, and Morgan, and the following entered:

Mr. Hackley, General Counsel
 Mr. O'Connell, Assistant General Counsel
 Miss Hart, Senior Attorney, Legal Division
 Mr. Forrestal, Senior Attorney, Legal Division
 Mr. Robinson, Attorney, Legal Division
 Messrs. Egertson and Maguire, Supervisory Review
 Examiners, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas on August 11, 1966, of the rates on discounts and advances in their existing schedules was approved unan-
 imously, with the understanding that appropriate advice would be sent to those Banks.

Approved items. After discussion of relevant information that had been made available to the Board, unanimous approval was given to the following letters, copies of which are attached to these minutes under the respective numbers indicated:

Item No.

1

Letter to Depositors Trust Company, Augusta, Maine, approving the establishment of an in-town branch and commenting on the bank's capital position.

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Item No.

Letter to Washington Trust Bank, Spokane, Washington, approving an investment in bank premises.

2

Letter to the Bureau of the Budget regarding a proposed Executive Order entitled "Amending Executive Order No. 11175 Relating to the Exclusion for Original or New Canadian Issues Where Required for International Monetary Stability."

3

Letter to the Bureau of the Budget regarding a draft bill "To amend the Small Business Investment Act of 1958, and for other purposes."

4

The Executive Order referred to in Item No. 3 would limit the exclusion from the interest equalization tax now applicable to acquisitions by U.S. persons of new Canadian stock or debt issues. The Treasury reported that some of the new Canadian issues had been purchased by U.S. persons for the purpose of making indirect acquisitions of other Canadian and foreign securities free of the interest equalization tax. The proposed Order would deny the exclusion for new Canadian issues to U.S. persons who, in acquiring such issues, also acquired indirectly an interest in other foreign stock or debt obligations that, if acquired directly, would be subject to the tax.

The proposed Executive Order would also permit U.S. commercial banks to acquire new issues of Canadian stock or debt obligations without payment of the interest equalization tax. The existing exclusion did not extend to commercial banks because at the time the original Executive Order was issued bank loans were not subject to the tax. The proposal

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would equalize the treatment of all U.S. persons in acquiring such new Canadian issues.

Section 8 of Clayton Act. In April 1965 the Board asked the Federal Reserve Banks for information on instances where nominal stock ownership in a bank had been used for the purpose of avoiding the provisions of section 8 of the Clayton Act that forbid persons from serving two or more banks as directors, officers, or employees. Five Reserve Banks subsequently reported a total of 10 such cases.

In a distributed memorandum of August 10, 1966, the Legal Division noted that at present the loophole contained in paragraph (4) of section 8 apparently was not being used to any significant extent to avoid the prohibition of the statute. The Division also reported that thus far it had not been able to develop any satisfactory proposal to close the loophole within the scope of the Board's authority. It pointed out that the House Judiciary Committee had under consideration a bill (H.R. 11572) that among other things would eliminate the loophole, and that the Board had included comments on this aspect of the matter in a letter to Committee Chairman Celler dated June 9, 1966. The Division recommended that a letter be sent to the Reserve Banks asking that the Board be kept informed of any further instances that came to their attention where nominal stock ownership was being used to justify interlocking relationships otherwise prohibited by section 8.

Discussion developed a view on the part of the Board that it would be desirable to recommend to the Congress an amendment to section 8

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of the Clayton Act to close the loophole, and the preparation of a letter submitting such a recommendation was requested. It was understood that a letter also would be sent to the Federal Reserve Banks advising that such a recommendation had been made and requesting them to keep the Board informed of further cases that might come to their attention.

Chain banking. Question was raised whether the Board did not regard itself as having a responsibility for bringing to the attention of the Congress the degree of concentration of banking resources that was occurring through the use of devices (such as one recently reported in the press in the State of Michigan) that served to bring banks under the effective control of common interests, but in ways that did not fall within the purview of the Bank Holding Company Act. Members expressed the view that the Board did have such a responsibility.

Governor Brimmer referred to the discussion at the meeting on July 29, 1966, regarding the case in which Texas-based interests owning shares of certain Florida banks were attempting to achieve effective control of a relatively small New York City nonmember insured bank, but through corporate purchase of something less than 25 per cent of the bank's stock. He stated that, pursuant to conversation with the Vice Chairman following the July 29 meeting, he was working with the staff to bring together information for the Board's consideration not only with respect to this particular case, and the possible applicability of the Bank Holding Company Act thereto, but also other cases involving somewhat similar circumstances.

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It was agreed that consideration of a possible report to the Congress would await the results of the study referred to by Governor Brimmer.

Direct verification. Reference was made to a distributed memorandum from the Division of Examinations dated August 8, 1966, proposing that the Federal Reserve Banks be asked to inform State member banks with less than about \$50 million of deposits that the Federal Reserve would, during each examination and at the System's expense, verify directly a percentage of the bank's assets and liabilities, if the bank was agreeable.

The memorandum referred to the experience of the Dallas Reserve Bank in offering this service on a voluntary basis. It also noted the recent instruction of the Comptroller of the Currency to national bank examiners that in those cases where a national bank's internal audit system was considered inadequate, certain audit procedures, including direct verification, were to be performed by the examiners.

Discussion of the matter by the Board developed a view that the direct verification procedure should be mandatory in cases where a State member bank's internal controls and/or audit program were of questionable adequacy. The staff was requested to prepare for the Board's consideration a revised draft of letter to the Federal Reserve Banks stating the matter in such terms. In recognition of certain bank and public relations problems that might be involved, it was suggested that

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such letter as might be approved by the Board be sent to the Reserve Banks in draft form, with a request for discussion with the Board at the time of the next meeting of the Presidents' Conference. In view of the problem of relationships with State banking departments, it was also understood that a letter would be sent to the National Association of Supervisors of State Banks citing the contemplated examining procedure and inviting the views of the State bank supervisors. Finally, the Board expressed the view that the Reserve Banks should be informed that the practice of sight posting incoming items from cash letters and local clearings should be made a routine part of each bank examination unless the internal controls and audit program of the bank were such as to make this procedure unnecessary.

All members of the staff except Messrs. Sherman, Kenyon, and Young then withdrew.

Visit of CEMLA group. In connection with arrangements being made for the visit of trainees from the Center for Latin American Monetary Studies during the week of September 6, 1966, question had been raised at staff level whether the Board would be prepared to defray the cost of an evening function for the trainees either at the home of a Board staff member, if such arrangement could be made, or elsewhere.

After discussion of the values involved in such a function as part of the over-all program being arranged for the group, it was understood that the Board would be willing to defray the reasonable cost of

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such an affair if arrangements could be worked out to hold it at the residence of some person associated with the Board.

Fund-Bank meetings. Reference was made to the decision at the meeting on August 3, 1966, that a reception would be held at the Federal Reserve Building on the afternoon of Monday, September 26, for central bankers, and possibly others, attending the annual meetings of the International Monetary Fund and the International Bank for Reconstruction and Development. It was now stated that it appeared, in the light of further information concerning the program for the meetings, that Wednesday, September 28, would be a more convenient date. It was also stated that staff calculations suggested the desirability of restricting the list of invitees to central bankers.

In discussion, some reservations were expressed by Governors Daane and Brimmer as to whether a reception of the kind being planned would prove entirely satisfactory. It was understood, however, that plans would proceed on this basis, for the afternoon of September 28, with invitations limited to central bankers and their wives.

The meeting then adjourned.

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

Appointment

Christine Klaput as Clerk-Typist, Division of Research and Statistics, with basic annual salary at the rate of \$4,269, effective the date of entrance upon duty.

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Salary increases

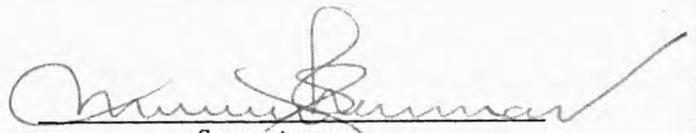
Lynda Fein, Clerk-Typist, Division of Research and Statistics, from \$4,413 to \$4,776 per annum, with a change in title to Administrative Clerk, effective August 14, 1966.

Watkins Leigh Ribble, Economist, Division of Research and Statistics, from \$9,851 to \$10,927 per annum, effective August 14, 1966.

Acceptance of resignation

Patricia Ann Cuneo, Statistical Clerk, Division of Research and Statistics, effective the close of business August 12, 1966.

Governor Shepardson also approved today on behalf of the Board a request from Frederic Solomon, Director, Division of Examinations, for permission to deliver a lecture on bank capital at the Graduate School of Banking, University of Wisconsin, Madison, Wisconsin, in August 1966 while on annual leave.



Secretary

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

Item No. 1
8/12/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 12, 1966

Board of Directors,
Depositors Trust Company,
Augusta, Maine.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Depositors Trust Company, Augusta, Maine, of a branch in the Maine Shopping Center, Outer Western Avenue, Augusta, Maine, provided the branch is established within six months from the date of this letter.

It is the Board's understanding that careful consideration is being given to means to strengthen your bank's capital position which is presently regarded as less than satisfactory.

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
8/12/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 12, 1966



Board of Directors,
Washington Trust Bank,
Spokane, Washington.

Gentlemen:

Pursuant to the provisions of Section 24A of the Federal Reserve Act, the Board of Governors of the Federal Reserve System approves an investment in bank premises of not to exceed \$200,000 by Washington Trust Bank, Spokane, Washington, for purchase of property in Opportunity, Washington, and construction of quarters for a proposed branch.

The Board's approval of this proposed investment in no way indicates its approval of an application by your bank for a branch in Opportunity, Washington, now pending before the State authorities and the Board. In the event the proposed branch should be denied by the State or the Board, it is presumed the property to be purchased in Opportunity would be disposed of promptly.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 3
8/12/66

OFFICE OF THE VICE CHAIRMAN

August 12, 1966.



The Honorable Charles L. Schultze,
Director,
Bureau of the Budget,
Washington, D. C. 20503

Dear Mr. Schultze:

This is in reply to the Budget Bureau's letter of July 7, 1966, regarding a proposed Executive Order entitled "Amending Executive Order No. 11175 Relating to the Exclusion for Original or New Canadian Issues Where Required for International Monetary Stability."

The Board is in sympathy with the objectives to be achieved by the proposed amendment and recommends that it be approved.

Sincerely,

(Signed) J. L. Robertson

J. L. Robertson.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 4
8/12/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 12, 1966.

Mr. Wilfred H. Rommel,
Assistant Director for Legislative Reference,
Bureau of the Budget,
Washington, D. C. 20503

Dear Mr. Rommel:

This is in response to the Bureau's Legislative Referral Memorandum of August 5, 1966, received by the Board on August 8, requesting the Board's views on a draft bill "To amend the Small Business Investment Act of 1958, and for other purposes." We note that bills, identical in language, were introduced, respectively, in the Senate on August 8 (S. 3695) and in the House of Representatives on August 9 (H. R. 16934), and that, with minor exceptions, each is identical with the draft bill to which this response is directed.

The Board favors what it perceives to be the purpose of the draft bill, that is, to strengthen the regulatory and supervisory powers of the Small Business Administration with regard to its administration of the Small Business Investment Company program. While the Board has not undertaken a detailed analysis of the effect of the draft bill on all phases of the Small Business Administration's regulation of the Small Business Investment Company program, as viewed in its broad aspects, the draft bill would appear to broaden sufficiently the Administration's supervisory and related enforcement authority as to enable it to deal more effectively with any serious problems relating to the operations of small business investment companies. This strengthened supervisory position will serve the best interests of the regulated companies and the small business concerns which they serve, and equally important, the public interest.

The Board has no objection to the draft bill to amend the Small Business Investment Act of 1958.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.