

Minutes for August 16, 1966

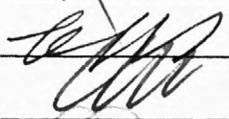
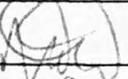
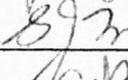
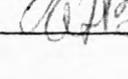
To: Members of the Board

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 Tuesday, August 16, 1966. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Robertson, Vice Chairman
Mr. Shepardson
Mr. Mitchell
Mr. Brimmer

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Bakke, Assistant Secretary
Mr. Holland, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research and Statistics
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Miss Wolcott, Technical Assistant, Office of the Secretary
Messrs. Forrestal, Kay, and Pustilnik, and Miss Hart of the Legal Division
Mr. Dahl, Chief, Special Studies and Operations Section, Division of International Finance
Messrs. Egertson and Goodfellow of the Division of Examinations

Approved items. The following items were approved unanimously after consideration of background information that had been made available to the Board. Copies are attached under the respective numbers indicated.

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Item No.

- Letter to Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, approving the establishment of a branch in Springfield Township and an investment in bank premises. 1
- Letter to First State Bank of Greenville, Greenville, Michigan, approving the establishment of a branch at South Franklin and West Cass Streets. 2
- Letter to Commerce Trust Company, Kansas City, Missouri, approving the declaration of a dividend, consisting of certain assets equal to approximately \$18.6 million, to be paid in 1966 or 1967. 3
- Letter to Continental International Finance Corporation, Chicago, Illinois, granting consent to an additional investment by Continental and Overseas Investments N.V., Amsterdam, The Netherlands, a 50 per cent owned subsidiary, in Banque Europeenne d'Outre-Mer, Brussels, Belgium. 4
- Letter to the Federal Reserve Bank of New York interposing no objection to certain revisions in its foreign travel program for 1966. 5
- Letter to the Bureau of the Budget advising that the Board had no recommendations at this time for action under the Reorganization Act of 1949, as amended. 6
- Letter to the Comptroller of the Currency inviting comment on the Board's request that steps be taken to terminate certain interlocking directorships in the Detroit-Livonia, Michigan, area prohibited under section 8 of the Clayton Act. 7
- Letter to the Department of Justice advising that the Board had no suggestions as to the form and substance of regulations to be formulated covering the settlement of claims against the Government arising under the Federal Tort Claims Act. (With the understanding that copies of the letter would be sent to all Reserve Banks.) 8

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In connection with Item No. 3, it was noted that Commerce Trust Company had been subject to continuing criticism by Federal Reserve examiners for ownership of extensive real estate interests through subsidiaries. The bank now proposed to form a holding company to which would be transferred 80 per cent or more of the bank's outstanding common stock. After transfer of all nonbank real estate interests to one of its subsidiaries in exchange for additional stock of that subsidiary, the bank would declare and pay a dividend consisting of all stock of the subsidiary companies. While the declaration of the dividend was approved, members of the Board noted reservations as to the use of subsidiaries or one-bank holding companies to combine banking and nonbanking businesses, even though there was no statutory prohibition.

With respect to Item No. 4, question was raised why the letter of consent did not contain the usual caveat with respect to observance of the voluntary foreign credit restraint effort guidelines. Governor Robertson noted that where an Edge corporation itself proposed to make an investment abroad, such comment was appropriate since the transaction involved a capital outflow from the U.S. In this case, however, a foreign subsidiary of the applicant proposed to make the investment and to use funds already abroad.

In connection with Item No. 5, Governor Brimmer inquired whether it was considered appropriate for a foreign central bank to pay

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the expenses of a System representative traveling on official business. He referred to a proposed trip by Mr. Lang of the New York Reserve Bank to Venezuela in connection with the dedication of new quarters of the Venezuelan central bank. In discussion, it was pointed out that the circumstances of the particular trip to which Governor Brimmer referred were different from those involved in the usual visitation, and that no System policies regarding foreign travel would appear to be contravened by accepting the Venezuelan central bank's offer to underwrite Mr. Lang's expenses. In this connection, it was recalled that the same tender had been made in 1965 by the Ethiopian central bank when Mr. Rozell of the New York Reserve Bank, who at one time had served as governor of the Ethiopian central bank, was invited to attend dedication ceremonies. No objection was interposed by the Board on that occasion. Governor Mitchell commented in further explanation of the Venezuelan ceremonies, to which many central banks were sending representatives, and it was the consensus that the circumstances warranted accepting the central bank's offer.

With respect to Item No. 6, Governor Mitchell commented that notwithstanding the Board's reluctance in the past to suggest use of the Reorganization Act to obtain authorization for delegation of certain Board responsibilities, if present efforts to secure such authority by legislation were not productive he would favor reconsideration of the possibility of pursuing the reorganization plan route.

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Request for FOMC records (Item No. 9). Pursuant to an understanding reached at yesterday's meeting, there had been distributed a draft of reply to a letter of August 12, 1966, from Chairman Patman of the House Banking and Currency Committee requesting that minutes and other records of the Federal Open Market Committee be made available to members of the House Banking and Currency Committee and its staff.

Following discussion, during which certain editorial changes were suggested, unanimous approval was given to a reply in the form attached as Item No. 9.

The meeting adjourned after the Vice Chairman, in a session with limited staff attendance, reported to the other Board members certain developments relating to proposed legislation to provide broader authority for interest rate limitations on savings-type deposits.

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

Appointment

Ellen R. Lewis as Statistical Clerk, Division of Research and Statistics, with basic annual salary at the rate of \$4,776, effective the date of entrance upon duty.

Transfer

Diane Dzik, from the position of Stenographer in the Division of Personnel Administration to the position of Stenographer in the Division of Examinations, with no change in basic annual salary at the rate of \$4,269, effective upon assuming her new duties.

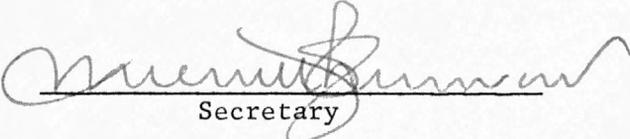
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Acceptance of resignations

David H. Mudarri, Economist, Division of Research and Statistics,
effective the close of business August 26, 1966.

Robert P. Lacey, Statistical Clerk, Division of Research and
Statistics, effective the close of business September 9, 1966.


Secretary

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

Item No. 1
8/16/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 16, 1966

Board of Directors,
Fidelity-Philadelphia Trust Company,
Philadelphia, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, of a branch in the vicinity of the intersection of Baltimore Pike and Sproul Road, Springfield Township, Delaware County, Pennsylvania, provided the branch is established within one year from the date of this letter.

The Board of Governors also approves under the provisions of Section 24A of the Federal Reserve Act, an additional investment of \$75,000 in bank premises incident to the establishment of the branch.

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.)

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Item No. 2
8/16/66

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 16, 1966

Board of Directors,
First State Bank of Greenville,
Greenville, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by First State Bank of Greenville, Greenville, Michigan, of a branch at the southwest corner of South Franklin and West Cass Streets, Greenville, 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.)

Item No. 3
8/16/66

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 16, 1966

Board of Directors,
Commerce Trust Company,
Kansas City, Missouri.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of paragraph 6 of Section 9 of the Federal Reserve Act and Section 5199(b) of United States Revised Statutes, the declaration of a dividend consisting of assets equal to approximately \$18.6 million by Commerce Trust Company, Kansas City, Missouri, to be paid in 1966 or 1967. It is understood that this dividend will include Commerce Trust Company's investment in the Commerce Tower Building, the Commerce Garage Building, the Civic Center Property, and its investment in its subsidiaries, ComTrusCo Investment Company, Commerce Tower Company, and Kansas City Min-Royalty Company.

This letter does not authorize any future declaration of dividends that would require the Board's approval under the foregoing statutes.

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
8/16/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 16, 1966.

Continental International
Finance Corporation,
231 South LaSalle Street,
Chicago, Illinois. 60690

Gentlemen:

In response to your letter of July 29, 1966, written on behalf of Continental and Overseas Investments N.V. ("COIN"), Amsterdam, The Netherlands, the Board of Governors grants consent for COIN to make an additional investment in Banque Europeenne d'Outre-Mer, Brussels, Belgium, of 100 million Belgian Francs, equivalent to US\$2,000,000.

It is noted that COIN currently has sufficient funds for the proposed investment and hence no additional outlay is required of Continental International Finance Corporation.

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, D. C. 20551

Item No. 5
8/16/66

**ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD**

August 16, 1966

Mr. Richard A. Debs, Secretary,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Debs:

This will acknowledge receipt of your letter of August 9, 1966, advising the Board of changes in your Bank's 1966 foreign travel program to include visits by Messrs. Clarke and Lang, respectively, to Mexico and Venezuela.

The Board has noted without objection these revisions in your foreign travel program.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 6
8/16/66

OFFICE OF THE VICE CHAIRMAN



August 16, 1966

Mr. Charles L. Schultze, Director,
Bureau of the Budget,
Executive Office of the President,
Washington, D. C. 20503

Dear Mr. Schultze:

This is in response to your letter of August 3, 1966, in which you invite the Board to recommend to the Bureau any Presidential reorganization plan action that the Board may consider desirable in connection with the Bureau's review of proposals concerning the organization and management of agencies and functions for possible presentation during the next session of Congress under the Reorganization Act of 1949, as amended.

The Board has no such recommendations to make at this time.

Sincerely,

(Signed) J. L. Robertson

J. L. Robertson.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 7
8/16/66

OFFICE OF THE VICE CHAIRMAN

August 17, 1966



The Honorable James J. Saxon,
Comptroller of the Currency,
Treasury Department,
Washington, D. C. 20220

Dear Mr. Comptroller:

Under date of July 7, 1966, you were supplied with a copy of the Board's letter of that date to the Federal Reserve Bank of Chicago in which the Board concluded that Mr. Stanford C. Stoddard and Mr. Frank R. Welsher were prohibited by section 8 of the Clayton Act (15 U.S.C. 19) from continuing to serve as officers and directors of Michigan Bank, National Association, and directors of Livonia National Bank, Livonia, Michigan. The Board's conclusion is based on its view that Livonia and Detroit are "adjacent" within the meaning of paragraph (5) of section 8 of the Clayton Act and section 212.2(d)(5) of the Board's Regulation L, and that the interlocking services are not permitted by any other provision of section 8 or the Regulation.

The Board had taken the position in 1953 that Livonia and Detroit were adjacent. However, in your letter of March 3, 1966 (in which you referred to the Board's 1953 letter), you advised Michigan Bank, National Association, that because of paragraph (5) of section 8 of the Clayton Act the interlocking services of Messrs. Stoddard and Welsher were not forbidden by the statute.

As pointed out in the Board's letter of July 7, 1966, section 11 of the Clayton Act (15 U.S.C. 21) places authority in the Board to enforce section 8, where applicable to banks, and directs the Board, whenever it shall have reason to believe that any person is violating or has violated any provisions of that section, to institute administrative proceedings for that purpose.

It is understood that Messrs. Stoddard and Welsher are continuing to serve in the aforementioned capacities with Michigan Bank, National Association, and Livonia National Bank, although the Board in its letter of July 7 requested that steps be taken promptly to terminate the interlocking services. In the circumstances, the Board proposes to communicate further with the banks involved and advise them that, unless the interlocking relationships in question are terminated forthwith, it will be necessary for the Board to initiate steps to carry out its responsibility under section 11 of the Act. However, before so communicating with the banks, the Board asked that the matter be brought to your attention again, as it would be glad to receive any comments that you may wish to offer. Inasmuch as more than a month has expired since the Board's letter of July 7, the Board believes that it would not be desirable to delay the matter unnecessarily and, therefore, would hope that it might have a reply from you by the middle of September.

Sincerely,

(Signed) J. L. Robertson

J. L. Robertson.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 8
8/16/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



August 16, 1966

The Honorable John W. Douglas,
Assistant Attorney General,
Civil Division,
Department of Justice,
Washington, D. C. 20530

Dear Mr. Douglas:

This is in response to your letter of August 4, 1966, referring to Public Law 89-506, pursuant to which the Federal Tort Claims Act has been amended to authorize increased agency consideration of tort claims against the Government. You refer to Section 1 of P.L. 89-506, which provides that the head of each Federal agency may consider and settle claims "in accordance with regulations prescribed by the Attorney General", and state that your office is now considering the form and substance of proposed regulations. You request submission to you of any suggestions in this regard that the Board may wish to make.

As you are aware, on those occasions when interests of the Board of Governors in pending litigation have been represented by the Department of Justice, such representation has been undertaken with respect to the status of the Board as an independent establishment of the United States. Thus positioned, the Board meets the definition of "Federal agency" contained in the Tort Claims Act prior and subsequent to amendment. However, we are not aware of any instance when the Board was named defendant in an action brought under the Tort Claims Act, or where the Department of Justice represented the Board with respect to a claim filed under that Act. For this reason, the Board believes that the Department's purpose in requesting submission of suggestions as to the form and substance of the regulations proposed would not be furthered by the Board's submission of such suggestions. An additional reason for this decision is the fact that with respect to any award, compromise, or settlement, as authorized by P.L. 89-506, provision is made that the same "shall be paid by the head of the Federal agency concerned out of appropriations available to that agency". The Board does not operate with funds appropriated by Congress. Its operating funds are obtained

The Honorable John W. Douglas -2-

through semiannual levy upon the Federal Reserve Banks of an assessment sufficient to pay the Board's estimated expenses and the salaries of its members and employees for the half-year succeeding the levying of each such assessment (12 U.S.C. 243). Any claim for damages that might be asserted against the Board premised upon alleged tortious conduct of an employee would either be paid by the Board's insurance carrier pursuant to contractual obligation or, if not so paid, and if such claim were successfully pursued to judgment or settlement, would be paid from the Board's "non-appropriated" funds. In either event, such payment would not be subject to the conditions and requirements set forth in P.L. 89-506.

For the foregoing reasons, the Board has no suggestions to make as to the form and substance of the regulations proposed. If, as your work on this matter progresses, you believe that members of the Board's staff can be of some assistance, we will be glad to respond to a request for such assistance.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 9
8/16/66

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE VICE CHAIRMAN



August 16, 1966

The Honorable Wright Patman,
Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington, D. C. 20515

Dear Mr. Chairman:

In the absence of Chairman Martin, I am acknowledging your letter of August 12, 1966, referring to the recent passage of P. L. 89-487 and expressing again your desire for immediate availability of minutes and other records of the Federal Open Market Committee.

As you know, the effect of actual trading operations undertaken at the instruction of the Federal Open Market Committee is publicly reported each Thursday in the Federal Reserve condition statement. Also, a complete record of the actions of the Open Market Committee is published in the Board's Annual Report, including all votes cast by each member in connection with the determination of open market policies, plus statements of the reasons underlying the actions of the Committee and those underlying dissents, when there are dissents. In addition, the complete minutes of the Open Market Committee, which relate the discussions preceding the actions that are reported as above, have been made available through the end of 1960 for public inspection at the National Archives, at the Board's offices here, and at all Federal Reserve Banks and branches over the country.

As you also know, we do have concern, from the standpoint of the public interest and that of the Treasury, over premature disclosure of records that could permit speculators and others to realize unfair profits or advantages through speculative trading in securities or foreign exchange, and could be disruptive to the Government securities market and

The Honorable Wright Patman

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adverse to the Board's ability to carry out its monetary responsibilities. Similarly, since confidential financial information of foreign governments and their respective central banks is among matters covered in these records, premature disclosure could also jeopardize relations between the United States and these friendly governments.

We are now studying the provisions of P. L. 89-487 that Congress enacted to become effective July 4, 1967, with every desire to see that the public's access to information is fully assured, and we will conclude that study within the time prescribed by the Congress.

Sincerely yours,

(Signed) J. L. Robertson

J. L. Robertson