

Minutes for October 3, 1966

To: Members of the Board

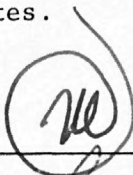
From: Office of the Secretary

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



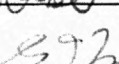
Gov. Mitchell



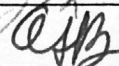
Gov. Daane



Gov. Maisel



Gov. Brimmer



Minutes of the Board of Governors of the Federal Reserve System on Monday, October 3, 1966. The Board met in executive session in the Special Library at 10:00 a.m.

PRESENT: Mr. Martin, Chairman 1/
Mr. Robertson, Vice Chairman
Mr. Shepardson
Mr. Mitchell
Mr. Daane
Mr. Maisel
Mr. Brimmer

The Secretary was advised later that during the executive session the Board gave consideration to certain aspects of the salary structure pertaining to the Board's staff.

The Board also approved travel by Daniel H. Brill, Director of the Division of Research and Statistics, to Rome, Italy, during the period October 12-16, 1966, to conduct a seminar at the Bank of Italy, it being understood that Mr. Brill was attending a meeting of the OECD Working Group I, Invisibles Committee, in Paris, France, during the period October 2-11.

The meeting continued in the Board Room beginning at 10:45 a.m., at which time the following members of the staff joined the meeting:

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Bakke, 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. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Solomon, Director, Division of Examinations

1/ Withdrew from meeting at point indicated in minutes.

10/3/66

-2-

Mr. Dahl, Assistant Director, Division of Examinations
Miss Eaton, General Assistant, Office of the Secretary
Mr. Furth, Consultant
Mr. Morgan, Staff Assistant, Board Members' Offices

Messrs. Koch, Partee, Garfield, Williams, Axilrod, Gramley,
Smith, Eckert, Freedman, Gehman, Keir, Rosenblatt,
Thompson, and Trueblood of the Division of Research and
Statistics

Messrs. Irvine, Hersey, Katz, Wood, Bryant, Gemmill, Grimwood,
Hayes, Klein, Kohn, and Maroni, and Mrs. Junz of the
Division of International Finance

Economic review. The Division of International Finance reviewed international financial developments, following which the Division of Research and Statistics presented a summary of domestic economic trends. The staff reports were based to a certain extent on materials that had been distributed in preparation for tomorrow's meeting of the Federal Open Market Committee. Copies of the relevant documents have been placed in the files of the Committee.

Chairman Martin then withdrew, as did members of the research divisions except Messrs. Koch, Katz, Hersey, Axilrod, Gemmill, and Grimwood, and the following entered the room:

Mr. Johnson, Director, Division of Personnel Administration
Mr. Hexter, Associate General Counsel
Mr. Leavitt, Assistant Director, Division of Examinations
Miss Hart and Mr. Forrestal of the Legal Division
Mr. Egertson of the Division of Examinations

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

10/3/66

-3-

	<u>Item No.</u>
Letter to Mexico Savings Bank, Mexico, Missouri, approving the establishment of a branch at 1011-1015 East Liberty Street and an investment in bank premises.	1
Letter to United California Bank, Los Angeles, California, approving the establishment of a branch in Riverside.	2
Letter to Wells Fargo Bank, San Francisco, California, granting an extension of time to establish a branch in the Del Monte Shopping Center, Monterey.	3
Letter to Farmers State Bank, Pine Bluffs, Wyoming, approving its application for admission to membership in the Federal Reserve System.	4
Letter to the Federal Reserve Bank of Richmond approving the payment of salary to John C. Horigan as Assistant General Auditor and to Lloyd W. Bostian as Examining Officer at the respective rates approved by the Bank's Board of Directors.	5
Letter to the Federal Reserve Bank of Boston expressing the opinion that section 32 of the Banking Act of 1933 would not forbid certain directors of Old Colony Trust Company, Boston, Massachusetts, from serving as directors of a proposed closed-end investment company.	6

Inflow of funds through foreign branches. At its meeting on August 31, 1966, the Board requested that a staff task force obtain information on the use by U.S. banks of dollar funds obtained through their foreign branches. The report of the task force, which consisted of Messrs. Axilrod, Forrestal, and Katz, had been distributed with a cover memorandum from Mr. Axilrod dated September 21, 1966.

10/3/66

-4-

There had also been distributed a memorandum from Mr. Solomon (Adviser) dated September 30, 1966, evaluating the significance of this short-term capital inflow from the viewpoint of U.S. balance of payments objectives, both immediate and longer run.

Governor Brimmer commented that in a sense this study had gotten under way because of his having raised the question in August and having pressed for investigation into the subject to help the Board make up its mind whether any action should be taken. He had been highly conscious of the experience during July, but he now felt that the question was less germane than in early August. The evidence suggested that the basis of his earlier concern, which was that the Board ought to do something to moderate the availability of foreign funds to U.S. banks to expand credit domestically, was less pressing now than earlier. The question of the impact of the short-term capital inflow on the balance of payments appeared to have been resolved in favor of deciding that the inflow had been helpful and fortuitous. He agreed with Mr. Solomon that the inflow had more or less offset a deterioration in other sectors of the balance of payments, at least on a temporary basis. However, there remained the question of the equity of the matter. A handful of U.S. banks had benefited from an inflow that enabled them to offset somewhat the effectiveness of domestic credit restraint as far as they were concerned.

Governor Brimmer recalled that one reason for the staff inquiry was to determine a reasonable basis for the application of reserve

10/3/66

-5-

requirements if the Board decided to take such action. It did not appear to him that any additional work had been done on that phase of the problem. If the Board decided to move in that direction, some additional work would be needed.

Governor Brimmer noted that he was giving a speech on Wednesday on the subject of monetary policy and the balance of payments, and said that he would like guidance from the Board in connection with the pertinent portion of his speech. As he had indicated previously, he felt that the urgency of the matter had diminished.

Mr. Axilrod said the task force understood its objective was to seek information from the commercial banks concerned about the sources and uses of these funds. The task force did not feel at liberty to raise certain kinds of questions, for example, what the commercial banks would do if reserve requirements were placed against the funds. There was a discussion of possibilities in the staff paper, but it should not be understood to reflect views of the banks.

The essential points covered in the paper were rather straightforward, Mr. Axilrod continued. The banks interviewed said that they used the funds in effect for domestic purposes, that the market was available and the banks with foreign branches went abroad and obtained the funds, and that that improved the over-all lending position of the banks. The funds, however, were relatively costly. For 7-day to 30-day money the cost was greater than the cost of equivalent money here. On

10/3/66

-6-

overnight funds, the cost was roughly comparable. The banks tended to adjust on a cost basis, but if banks were placed under sufficient pressure they appeared willing to go out and obtain funds at a cost varying from 6-1/4 to 7-1/4 per cent for longer-term money.

After commenting on the bookkeeping relationships between head offices and foreign branches, Mr. Axilrod said the comments of the banks as to the potential further use of such funds varied somewhat. One bank did not see much future in the business because it did not want to pay higher rates; another bank said that if it were hard pressed it would be willing to pay higher rates. Some banks seemed rather surprised at the success that had been achieved in obtaining funds through the foreign branches. As to alternative ways of obtaining funds, the banks were again rather vague. In any event, there was no need just now to explore alternative methods. Most banks felt that it would be possible to transfer assets abroad--some had done that--although one bank said it complicated the evaluation of foreign branch operations.

Mr. Axilrod noted that there was some discussion in the staff paper of the possible domestic credit effects, but that that was more or less a theoretical discussion.

Mr. Forrestal said that he had concluded that the legal position outlined in the August 17, 1966, memorandum from the Legal Division was correct. He had found nothing that would change the fundamental basis of that legal position, which was that the Board had authority to impose

10/3/66

-7-

reserve requirements on deposits in foreign branches, using as a vehicle section 25 of the Federal Reserve Act. He described certain operating difficulties that might be involved for the banks, but he believed that a solution such as outlined in the August 17 memorandum would work as a practical matter and would meet the Board's objectives if the Board decided to take action.

As to the question of equity mentioned by Governor Brimmer, Mr. Forrestal noted that the large banks with foreign branches and subsidiaries had a built-in competitive advantage. However, that advantage in ability to obtain dollar deposits for use in the U.S. was offset by the cost of obtaining such funds. The banks seemed quite conscious of the cost factor, although there was no telling how far they might go under the pressure of extremely tight money conditions.

Mr. Katz commented that the possibility of the use of moral suasion seemed relevant in a situation where only a few banks were involved. He had nothing to add to the material that had been distributed from the balance of payments point of view. It should be recognized, however, that this was hot money and that there were dangers in hot money. There might be difficulties when the funds obtained through the foreign branches began to flow out again. There would be a vulnerability which, based on British experience, might require discount rate action, but for the moment the situation was aiding the U.S. balance of payments a good deal.

10/3/66

-8-

3710

Governor Mitchell referred to statistics contained in the staff paper and raised the question whether it seemed necessary or advisable to augment the statistical reporting in this area. On the basis of staff replies, he indicated that he would not pursue the question further since the staff apparently believed that adequate statistics were available or could be obtained as necessary.

Governor Mitchell also said it was not entirely clear to him from the task force paper whether the staff felt there was any disposition on the part of U.S. firms to make deposits abroad as an avoidance operation. By this he meant that the banks could avoid maintaining reserve requirements and the depositor could obtain a higher rate of interest.

Mr. Axilrod replied that the banks had said that the only funds bid for abroad were dollar funds already abroad. He believed studies made by the Division of International Finance tended to bear that out.

As to Governor Brimmer's forthcoming speech, Governor Mitchell expressed the view that care should be exercised in what was said in advance of a Board decision because of the implications that might be drawn.

Governor Brimmer replied that that was why he had asked for the Board's guidance. He outlined the general theme of his speech and read portions of the draft that had a bearing on the area under discussion.

Other members of the Board indicated that they saw no particular difficulty in most of the language read by Governor Brimmer, but they urged careful editing of certain parts of the speech.

10/3/66

-9-

On the question whether the Board should take action, Governor Daane said he might have wanted to do something if the situation had become more fully apparent at some earlier point in time. At the present juncture, however, he would not want to do anything. From a balance of payments standpoint, the reasons had been brought out in the staff memoranda. Also, even though there might be some inequity involved in the situation, he did not believe that the idea of exerting further pressure at this time would be wise from the standpoint of financial markets.

Governor Maisel expressed concern about the longer-run implications. He noted that the action of a few banks appeared, according to his calculations, to have about offset all the reserve action that the System had taken this year. From the standpoint of the formulation of monetary policy, he believed that that kind of a situation was quite intolerable. The whole question of hot money also was involved. If, for example, the Federal Reserve desired a reduction of interest rates six months from now, it might be told that that was not feasible because there would be an outflow of hot money. Therefore, he felt that a potentially dangerous situation was involved and that the Board probably ought to move on it, whether immediately or not.

Other members of the Board observed that the inflow of funds had been netted out, in effect, in arriving at the desired over-all monetary policy position. Governor Maisel pointed out, on the other hand,

10/3/66

-10-

that the inflow was not taken into account in certain credit series. Mr. Axilrod commented that one could debate what the banks concerned would have done if they had not had access to these funds. Presumably they would have had to be more aggressive seekers of Federal funds or would have had to borrow more through the discount window if the funds had not been available. Governor Maisel noted that in such circumstances the Federal Reserve would have been establishing policy on the basis of a better awareness of the factors making up the total situation.

Governor Robertson expressed agreement with the dangers Governor Maisel had pointed out, but went on to say that he thought it would be unwise to do anything at this juncture. The Board might be faced later with a situation where it would have to do something, for example, if the British problem became acute around the end of the year. He suggested that care be exercised not to make comments that would indicate that the Board was or was not contemplating any action, although this was not to say that the Board should not indicate awareness of the problem. The Board should keep abreast of developments so that it would be in a position to move if necessary.

Mr. Fauver said he had recently received several inquiries from newsmen, which indicated that it must be fairly well known that the Board was considering the possible application of reserve requirements. If the Board should decide not to do anything at this time, there might be some benefit in eliminating the prevailing uncertainty unless the Board desired to perpetuate the uncertainty.

10/3/66

-11-

Governor Robertson expressed the view that the Board should make no decision at this time, particularly in the absence of Chairman Martin. It should table the matter, but it should keep aware of the facts so as to be in a position to move as circumstances might require.

Governor Brimmer said that as of last Friday the Chairman's attitude appeared to be that for the time being it would be unwise to apply reserve requirements or take any other action. The Chairman also appeared to feel that if action became necessary, the situation possibly could be handled on a moral suasion basis through conversations with appropriate people.

Governor Brimmer went on to say that he had hoped the Board would decide that it was not going to do anything, as of now, but that it would keep alert to the situation. Mr. Fauver was right in saying that rumors had gotten around. Therefore, it might be helpful if word got around that, for the time being, the Board was not contemplating any action.

Governor Robertson expressed the view that it was not desirable for the Board to indicate in conversations what its policy was or was not. That simply put the Board in a position where it might be precluded from taking action or, on the other hand, might be driven into action.

Governor Brimmer pointed out that rumors were around because the Board had sent members of its staff into the field, and Governor

10/3/66

-12-

Robertson said he would simply accept the fact and for the moment try to knock down any inquiries.

Mr. Holland raised the question whether the Board might want to obtain comments on this issue from the Reserve Bank Presidents tomorrow, and Governor Robertson said he would prefer to enter into such a discussion only if the Presidents expressed a desire.

Governor Shepardson said he joined in the comments that had been made and felt that the less said the better for the moment.

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:

Appointment

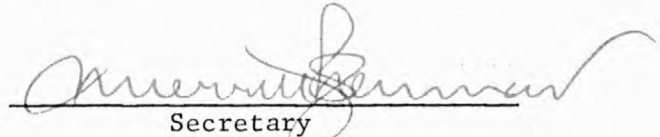
James P. Baldwin, Jr., as Messenger, Division of Administrative Services, with basic annual salary at the rate of \$3,609, effective the date of entrance upon duty.

Acceptance of resignations

Mary M. Menegos, Stenographer, Division of Data Processing, effective the close of business October 7, 1966.

Louis S. Zeller, Programmer, Division of Data Processing, effective the close of business October 7, 1966.

Joyce J. Wood, Secretary, Division of Research and Statistics, effective the close of business October 28, 1966.


Secretary

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

Item No. 1
10/3/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 3, 1966

Board of Directors,
Mexico Savings Bank,
Mexico, Missouri.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Mexico Savings Bank, Mexico, Missouri, at 1011-1015 East Liberty Street, Mexico, Missouri, provided the branch is established within eighteen months from the date of this letter. The approval of this branch is in lieu of the Board's previous approval of the establishment of a branch by your bank in the vicinity of the intersection of Western Avenue and Promenade Street, Mexico, Missouri.

The Board also approves, pursuant to the provisions of Section 24A of the Federal Reserve Act, an investment in bank premises of not to exceed \$221,500 by Mexico Savings Bank, Mexico, Missouri, for the purchase of land (\$81,500) and the construction of quarters for the new branch (\$140,000).

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

3716
Item No. 2
10/3/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 3, 1966

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 intersection of Magnolia Avenue and Tyler Street, Riverside, 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.)

3717

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

Item No. 3
10/3/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 3, 1966

Board of Directors,
Wells Fargo Bank,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to September 26, 1967, the time within which Wells Fargo Bank, San Francisco, California, may establish a branch in the Del Monte Shopping Center on Old Capitol Site on Carmel Hill, Monterey, California.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 7, 1966



Board of Directors,
Farmers State Bank,
Pine Bluffs, Wyoming.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the application of Farmers State Bank, Pine Bluffs, Wyoming, for stock in the Federal Reserve Bank of Kansas City, subject to the numbered conditions hereinafter set forth:

1. Such bank at all times shall conduct its business and exercise its powers with due regard to the safety of its depositors, and, except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.
2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities.

In connection with foregoing conditions of membership, particular attention is called to the provisions of the Board's Regulation H, regarding membership of State banking institutions in the Federal Reserve System, with especial reference to Section 208.7 thereof. A copy of the regulation is enclosed.

If at any time a change in or amendment to the bank's charter is made, the bank should advise the Federal Reserve Bank, furnishing copies of any documents involved, in order that it may be determined whether such change affects in any way the bank's status as a member of the Federal Reserve System.

Farmers State Bank

-2-

Acceptance of the conditions of membership contained in this letter should be evidenced by a resolution adopted by the board of directors and spread upon its minutes, and a certified copy of such resolution should be filed with the Federal Reserve Bank. Arrangements will thereupon be made to accept payment for an appropriate amount of Federal Reserve Bank stock, to accept the deposit of the required reserve balance, and to issue the appropriate amount of Federal Reserve Bank stock to the bank.

The time within which admission to membership in the Federal Reserve System in the manner described may be accomplished is limited to 30 days from the date of this letter, unless the bank applies to the Board and obtains an extension of time. When the Board is advised that all of the requirements have been complied with and that the appropriate amount of Federal Reserve Bank stock has been issued to the bank, the Board will forward to the bank a formal certificate of membership in the Federal Reserve System.

The Board of Governors sincerely hopes that you will find membership in the System beneficial and your relations with the Reserve Bank pleasant. The officers of the Federal Reserve Bank will be glad to assist you in establishing your relationships with the Federal Reserve System and at any time to discuss with representatives of your bank means for making the services of the System most useful to you.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

Enclosure.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 5
10/3/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 3, 1966

CONFIDENTIAL (FR)

Mr. Edwin Hyde,
Chairman of the Board,
Federal Reserve Bank of Richmond,
Richmond, Virginia. 23213

Dear Mr. Hyde:

The Board of Governors has approved the payment of salary to officers of the Federal Reserve Bank of Richmond listed below, for the period October 1 through December 31, 1966, at the following rates fixed by your Board of Directors, as reported in your letter of September 15:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
John C. Horigan	Assistant General Auditor	\$17,000
Lloyd W. Bostian	Examining Officer	14,000

The Board has noted that Mr. Horigan will be placed in Group B rather than Group C of the Officers' Salary Administration Plan because of his increased responsibilities in the Audit function.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 6
10/3/66

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



October 3, 1966

Mr. Laurence H. Stone, Secretary and
Associate General Counsel,
Federal Reserve Bank of Boston,
Boston, Massachusetts. 02106

Dear Mr. Stone:

This refers to your letter of September 9, 1966, enclosing a letter of September 7, 1966, from Mr. John Hand, of the law firm of Sullivan and Worcester, counsel for John P. Chase, Inc., ("Chase") an investment counseling firm of Boston, Massachusetts. Chase proposes to organize and to serve as investment adviser to a new closed-end investment company ("the fund"). Two individuals, Mr. John E. Lawrence and Mr. John N. Worcester, who are now serving as directors of a member bank, Old Colony Trust Company, Boston, Massachusetts, would also serve at the same time as directors of the fund. In addition, Mr. Worcester is a partner in the firm of Sullivan and Worcester and would be Clerk of the proposed company. Counsel asks whether these relationships are subject to the prohibitions of section 32 of the Banking Act of 1933.

Section 32 provides, with an exception not relevant here, that:

"No officer, director, or employee of any corporation or unincorporated association, no partner or employee of any partnership, and no individual, primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at whole-sale or retail, or through syndicate participation, of stocks, bonds, or other similar securities, shall serve [at] the same time as an officer, director, or employee of any member bank . . ."

For many years, the Board has held that open-end investment companies are primarily engaged in the activities described in the statute because "the more or less continued process of redemption of the stock issued

by such a company would restrict and contract its activities if it did not continue to issue its stock." (1951 Bulletin 645; 12 CFR 218.101) As a result, section 32 prohibits interlocking service between an open-end investment company and a member bank.

In 1960, the Board expressed the view that the same rule applies to a closed-end company which is "in process of organization and . . . actively engaged in issuing and selling its shares". (1960 Bulletin 371; 12 CFR 218.102) The following year, the Board clarified this position by explaining that the rule applies only:

" . . . where the circumstances are such as to indicate that the issuance of the company's stock is a primary or principal activity of the company. For example, such circumstances might exist where the initial stock of a company is actively issued over a period of time longer than that ordinarily required for corporate organization, or where, subsequent to organization, the company issues its own stock frequently and in substantial amounts relative to the total amount of shares outstanding." (1961 Bulletin 156; 12 CFR 218.104)

In one of the instances discussed in this interpretation, where the company was held not to be engaged in the activities described in section 32, issuance of the stock was to be completed within 30 to 60 days.

In the present case, it is anticipated that the actual selling period during which orders for shares will be confirmed to the public by the underwriters and the dealer group, extending from the effective date of the registration statement to the closing when the shares are actually issued, will be not more than ten days, and although the period could be extended by agreement of the parties, it is most unlikely that it would be extended even by as much as 30 days. Accordingly, it appears that the fund will not be engaged in the activities described in section 32 in respect to the issuance of its shares.

You also ask whether Mr. Worcester should be regarded as an employee of Chase because of his membership in a firm which serves as counsel to the corporation. You state that it would probably be correct to assume that Chase is primarily engaged in the activities described in section 32, so that, if Mr. Worcester were an employee of the corporation, his service as a director of the Old Colony Trust Company would be prohibited by section 32.

In the administration of section 32, the Board has interpreted the term 'employee' as not applicable to an attorney except in the unusual case where the attorney is actually an employee of the bank or company

involved. The Board has not regarded the customary relationship of attorney and client as constituting the attorney an 'employee' of the client. You have informed the Board's staff that the firm of Sullivan and Worcester is retained from time to time as attorney for Chase in connection with various specific matters, and that the relationship is the customary one between attorney and client, with no unusual features. Accordingly, it would not appear that Mr. Worcester should be regarded as an employee of Chase for purposes of section 32. The Board recognizes, as you point out, that some doubt is thrown on a similar question under the Investment Company Act of 1940, by an opinion of the General Counsel of the Securities and Exchange Commission cited in Loss, Securities Regulation, Vol. II (1961 ed.), page 732, n. 37. However, this opinion was handed down in a different context, under a different statute, and should not be regarded as controlling a long-standing administrative position of the Board.

For the reasons just stated, then, the Board does not believe that section 32 of the Banking Act of 1933 forbids the interlocking service of Mr. Worcester and Mr. Lawrence as directors of the Old Colony Trust Company and the proposed closed-end investment company sponsored by Chase, or the service of Mr. Worcester as a director of that bank while he is a member of the law firm of Sullivan and Worcester. This opinion is based, of course, on the facts submitted to the Board, and different or additional facts might well require a different conclusion. It would be appreciated if you would transmit the substance of these views to Mr. Hand.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.