

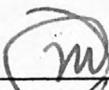
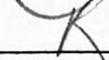
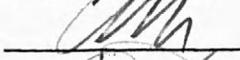
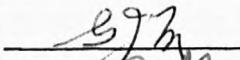
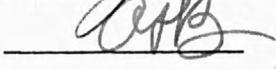
Minutes for November 8, 1966

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, November 8, 1966. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Bakke, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Sammons, Associate Director, Division of International Finance
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Thompson, Assistant Director, Division of Examinations
Mr. Dahl, Assistant Director, Division of Examinations
Miss Wolcott, Technical Assistant, Office of the Secretary
Mr. Forrestal and Mrs. Heller, Senior Attorneys, Legal Division
Mr. Egertson, Supervisory Review Examiner, and Mr. Goodfellow, Review Examiner, 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.

11/8/66

-2-

4171

Item No.

Letter to The Annapolis Banking and Trust Company, Annapolis, Maryland, approving the establishment of a branch in Edgewater, Anne Arundel County.

1

Letter to County Bank of Santa Cruz, Santa Cruz, California, approving the establishment of a branch in Scotts Valley and commenting on the bank's capital position.

2

Letter to The Sumitomo Bank of California, San Francisco, California, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.

3

Letter to Fidelity Union Trust Company, Newark, New Jersey, approving an investment in bank premises.

4

Notice for publication in the Federal Register inviting comments on a proposed revision of Form F.R. Y-6, for use by bank holding companies in submitting annual reports to the Board.

5

Letter to First Wisconsin National Bank of Milwaukee, Milwaukee, Wisconsin, authorizing it to accept drafts or bills of exchange drawn for the purpose of furnishing dollar exchange.

6

In connection with Item No. 6, Governor Shepardson inquired as to the status of the study of Regulation C (Acceptance by Member Banks of Drafts or Bills of Exchange) that had been under way for some time. Mr. Hackley replied that a Board staff memorandum pointing up major policy questions with respect to the System's attitude toward bankers' acceptances would be available to the Board within the near future. The Subcommittee on Bankers' Acceptances of the Presidents' Conference Committee on Discounts and Credits had been given the assignment of making

11/8/66

-3-

a study in depth of bankers' acceptances, and Messrs. Hexter and Dahl had been designated as associate members of the Subcommittee. The aforementioned staff memorandum could, if the Board so decided, be furnished to the Subcommittee.

Application of The Company for Investing Abroad. The application of The Company for Investing Abroad, Philadelphia, Pennsylvania, a section 25(a) corporation, for consent to purchase between 20 and 35 per cent of the stock of Balthex International, Inc., also of Philadelphia, at a cost of approximately \$70,000 had received preliminary consideration at the meeting on October 24, 1966, at which time the Legal Division was requested to prepare a memorandum on the legal questions involved. Points of primary concern were (1) whether Balthex was engaged in the general business of buying or selling goods, wares, or merchandise or commodities in the United States, and (2) whether Balthex's business was international in character, and, if so, whether its activities in the United States were incidental to its international or foreign business.

For reasons set forth in a distributed memorandum dated October 27, 1966, the Legal Division concluded that the Board would be legally justified in approving the application. If for policy reasons, however, the Board wished to deny consent, it would of course not be precluded from so doing.

In reaching this position the Division brought out, among other points, that Balthex would act as a conduit of legal title to goods and

11/8/66

-4-

equipment for ultimate use outside the United States. It would purchase goods in the United States only for sale in foreign countries and would do so only after it had obtained a firm purchase order from its agent abroad for the specific goods involved in each transaction. It was the opinion of the Legal Division that purchasing goods solely for transmission abroad would not cause Balthex to be "engaged in the general business of buying or selling goods . . . in the United States . . .", which was prohibited under section 25(a) of the Federal Reserve Act. The Legal Division cited as one precedent an interpretation that had been followed by the Board in 1965 in connection with the acquisition of stock of Bank of London & South America, London, England, by Mellon Bank International.

In addition, it was the view of the Legal Division that the activities of Balthex in the United States might properly be considered incidental to its international or foreign business as that term was used in section 25(a). The memorandum cautioned, however, that should The Company for Investing Abroad acquire a controlling interest in Balthex it could then be argued that it was engaged essentially in the export business and in a type of activity not contemplated for Edge corporations by the statute.

After summary comments by Mr. Forrestal, various aspects of the matter were discussed in terms of possible policy and legal implications. The staff responded to questions by members of the Board directed at determining the type of business transactions involved, similarities

11/8/66

-5-

and dissimilarities between the instant case and the Mellon case, and possible courses of action that might be pursued. Governor Mitchell indicated that he continued to have some apprehension about sanctioning investments of the kind contemplated by the application, particularly on the ground that the Board would be permitting member banks, indirectly through the device of an Edge subsidiary, to enter into a nonbanking business.

In answer to a question from Governor Robertson as to whether the study of foreign operations of U.S. banks now under way would cover this type of problem, Mr. Dahl stated that the matter had been given a good deal of thought. It was his opinion that more and more cases would be coming before the Board that presented questions in this general category.

Governor Robertson then joined Governor Mitchell and some of the other members in expressing concern that the Board might be inching its way into an untenable position without full examination of the longer-run implications. If the Board had not taken the position it did in the Mellon case, he would be inclined to deny the instant application. If it seemed likely that the Board could develop a general policy position on the basis of the study being conducted by Mr. Dahl, he would suggest that the matter now before the Board be held over.

Other members of the Board suggested that perhaps the Mellon case did not provide a binding precedent because the activities in the

11/8/66

-6-

United States of the Mellon subsidiary were a relatively small part of its whole business, to which Mr. Shay replied that the Board had not heretofore followed such a construction of the word "incidental" in determining whether proposed acquisitions were approvable.

Following further discussion, it was agreed that action on the application of The Company for Investing Abroad would be deferred pending analysis by the staff of the principle involved in the light of information developed through the study of foreign operations of U.S. banks.

Michigan National Bank matter. Mr. O'Connell reported that several Detroit banks planned to file a complaint asking for a declaratory judgment to the effect that Michigan National Bank, Lansing, might not lawfully acquire stock of Michigan Bank, National Association, Detroit, because that would be in violation of section 5136 of the U.S. Revised Statutes. The Comptroller of the Currency and the Board of Governors would be named as defendants. (It was Mr. O'Connell's understanding that the Board would be named in the thought that its views would best be brought before the court in such manner.) This afternoon counsel for the plaintiffs planned to seek a restraining order to prevent consummation of the transaction pending outcome of the suit.

Mr. O'Connell recalled that the Board had been informed previously that the Employees Profit Sharing Trust of Michigan National Bank had acquired more than 50 per cent of the common voting stock of Central Bank, Grand Rapids, Michigan. Under the Bank Holding Company Act, as

11/8/66

-7-

amended, if a bank's pension fund owned more than 25 per cent of the stock of another bank, control of that stock would be attributed to the bank itself. Consequently, if Michigan National Bank acquired stock of Michigan Bank, National Association, it would become a bank holding company. Accordingly, on October 31, 1966, the Board sent a letter to the Michigan National Bank to the effect that, on the basis of available information, consummation of the proposal without Board approval would violate the Bank Holding Company Act, and that the Board would not find it possible to approve such a transaction because of the restrictions of section 5136 of the Revised Statutes. Mr. O'Connell raised the question whether it would be appropriate to make known the contents of that letter.

Mr. Hackley added that a reply had now been received in which Chairman Stoddard of Michigan National Bank advised the Board that the Employees Profit Sharing Trust had arranged for the sale of sufficient shares of the stock of Central Bank to bring its holdings in that bank below 25 per cent and that no exchange offer would be made to the shareholders of Michigan Bank, National Association, until consummation of such sale.

Mr. O'Connell also observed that the Comptroller of the Currency, as defendant in the suit, would be entitled to representation by the Department of Justice. But the Board was also named as a defendant, thus giving rise to the question which defendant the Department of

11/8/66

-8-

Justice should represent. Another point to be considered was whether the Board had any serious objection to the testing of its interpretation of section 5136 in this manner. One possibility would be to urge dismissal of the suit insofar as the Board was concerned. If, as appeared from Mr. Stoddard's letter, no violation of the Bank Holding Company Act would occur, the only issue involved would be the interpretation of section 5136, and the Board's position had been publicized by an administrative interpretation appearing in the August 1966 Federal Reserve Bulletin.

During the ensuing discussion the view most generally expressed was that the Board was not properly a defendant in this case, which appeared to turn solely on interpretation of section 5136, the Board's position on which was a matter of public information because of the interpretation appearing in the August Bulletin. However, it was the consensus that Mr. O'Connell should be given latitude to exercise his best judgment at the hearing, in light of whatever questions might arise. (Note: As reported by Mr. O'Connell at the Board meeting on November 9, the hearing was not held.)

All members of the staff except Mr. Sherman then withdrew from the meeting.

Provision of space. Governor Shepardson referred to recent discussions by members of the Board of the need for obtaining additional space to accommodate certain of the Board's operations pending the

11/8/66

-9-

construction of an annex building. After stating reasons why it did not appear feasible to obtain the needed space in buildings located within a short distance of the Board's building in Washington, he reported that he had had exploratory discussions regarding the availability of space in a new office building being completed in the Rosslyn section of Arlington. It appeared that the space available (11,500 square feet) would meet the estimated needs of the Board for additional working areas during the next three years, but if that did not prove to be the case there would still be the possibility of temporary doubling up in some of the present offices or, in the alternative, of seeking for a short period additional space in the Rosslyn area where several new buildings are under construction. The building in question was virtually complete, and it was believed that erection of partitions could be completed and the space made ready for occupancy within about 30 days. It would, of course, be necessary for the Board to provide frequent bus service between that building and the Board's present offices.

Governor Shepardson said that he had reached the conclusion that the best solution to the Board's pressing need for additional space warranted the negotiation of a contract for space in a building to be known as the "Architect Building" in Rosslyn with a view to obtaining a three-year lease on 11,500 square feet at a cost of \$4.50 per square foot per annum, and with the understanding that a minimum of 20 parking spaces could also be obtained at a monthly cost of \$25 per space. Accordingly,

11/8/66

-10-

4179

he recommended that the Board authorize the negotiation of such a lease for the space described.

In response to a question from Governor Mitchell as to possible cancellation of such a lease, Governor Shepardson stated that he could not now say exactly what cancellation provisions might be possible but that he had in mind obtaining the best cancellation clause that could be gotten to protect the Board's interest. However, he was under the impression that a lease for a minimum period of three years would be in keeping with current practice.

After further discussion, Governor Shepardson was authorized to undertake the negotiation of a lease along the lines described.

Salary structure. Governor Shepardson reported certain developments in connection with staff salaries that had led him to conclude that in order to retain or obtain staff for a number of key positions it would be necessary to make a few selective deviations from the regular salary schedule of the Board. He also stated that the limits in the Board's general structure were competitive with those announced for other Government agencies, but he had become convinced that enough deviations were permitted in the structures of some of the agencies to justify selective exceptions within the Board's organization in order to be effectively able to compete with such other agencies. He did not have in mind any general revision in the salary structure nor did he think widespread deviations were called for on the basis of the present situation. Under

11/8/66

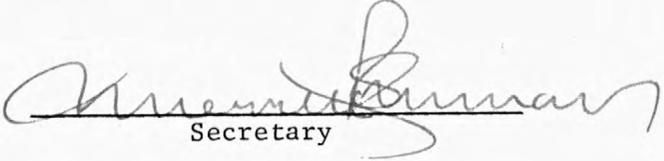
-11-

the circumstances, therefore, he requested that the Board indicate whether it would favor a procedure under which a limited number of exceptions to existing salary structure maxima would be permitted.

The other members of the Board present indicated that they would favor taking whatever steps appeared necessary to enable the Board to retain or obtain staff in positions such as Governor Shepardson had mentioned during his comments. The discussion concluded with the understanding that Governor Shepardson as the member of the Board having the assignment for internal administrative affairs would proceed to work out such individual arrangements as in his judgment appeared necessary to provide staff required to perform the Board's work satisfactorily.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a request from Robert L. Sammons, Associate Director, Division of International Finance, for permission to prepare an article on the international investment position of the United States for Finance Magazine.


Secretary

Item No. 1
11/8/66

**BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM**

WASHINGTON, D. C. 20551

**ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD**

November 8, 1966



Board of Directors,
The Annapolis Banking and Trust Company,
Annapolis, Maryland.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Annapolis Banking and Trust Company, Annapolis, Maryland, of a branch on the west side of Route 2, Edgewater, Anne Arundel County, Maryland, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

**Karl E. Bakke,
Assistant Secretary.**

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

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

Item No. 2
11/8/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 8, 1966

Board of Directors,
County Bank of Santa Cruz,
Santa Cruz, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by County Bank of Santa Cruz, Santa Cruz, California, of a branch in the vicinity of the intersection of Mt. Hermon Road and the road paralleling State Highway 17 on the west, Scotts Valley, California, provided the branch is established within one year from the date of this letter.

The Board understands careful consideration is being given to means to strengthen your bank's somewhat less than satisfactory capital position.

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. 3
11/8/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 8, 1966

Board of Directors,
The Sumitomo Bank of California,
San Francisco, California.

Gentlemen:

The Federal Reserve Bank of San Francisco has forwarded to the Board of Governors a letter dated October 18, 1966, signed by President I. Yamasaki, together with the accompanying resolution, signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

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

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

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
11/8/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 8, 1966

Board of Directors,
Fidelity Union Trust Company,
Newark, New Jersey.

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 by Fidelity Union Trust Company of not to exceed \$350,000 incident to relocation of the bank's Lyons Avenue Office from 295 Lyons Avenue to the corner of Lyons Avenue and Leslie Street, Newark, New Jersey.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

FEDERAL RESERVE SYSTEM

Item No. 5
11/8/66

[12 CFR Part 222]

[Reg. Y]

BANK HOLDING COMPANIES

Notice of Proposed Rule Making

The Board of Governors is considering the adoption of a revision of Form F.R. Y-6^{1/} for use by a bank holding company in submitting its annual report to the Board pursuant to section 5(c) of the Bank Holding Company Act (12 U.S.C. 1844) and § 222.8 of this part.

This notice is published pursuant to section 553(b) of title 5, United States Code, and section 1(b) of the Rules of Procedure of the Board of Governors of the Federal Reserve System (12 CFR 262.1(b)).

To aid in the consideration of this matter by the Board, interested persons are invited to submit relevant data, views, or arguments. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C., 20551, or to the Federal Reserve Bank of the district in which such interested person is located, to be received not later than December 5, 1966.

^{1/} Filed as part of the original document. Copies are available on request to the Board of Governors of the Federal Reserve System or to any Federal Reserve Bank.

Dated at Washington, D. C., this 16th day of November, 1966.

By order of the Board of Governors.

(SEAL) (Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 6
11/8/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 9, 1966.



First Wisconsin National Bank of Milwaukee,
Milwaukee, Wisconsin.

Gentlemen:

The Board of Governors of the Federal Reserve System authorizes your bank to accept drafts or bills of exchange drawn for the purpose of furnishing dollar exchange as required by the usages of trade in such countries, dependencies, or insular possessions of the United States as may have been designated by the Board of Governors, subject to the provisions of Section 13 of the Federal Reserve Act and the Board's Regulation C.

Enclosed is a list of the countries with respect to which the Board of Governors has found that the usages of trade require the furnishing of dollar exchange.

The foregoing authorization has been given with the understanding that the foreign loans and investments of First Wisconsin National Bank of Milwaukee will not 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. Your attention is also directed to the fact that dollar exchange acceptance financing does not represent export credit.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

Enclosure