FR 609

Minutes for December 7, 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 Wednesday, December 7, 1966. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Shepardson
Mr. Mitchell
Mr. Daane
Mr. Maisel
Mr. Brimmer

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Young, Senior Adviser to the Board
Mr. Holland, Adviser to the Board
Mr. Solomon, Adviser to the Board and Director, Division of International Finance
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. Hexter, Associate General Counsel
Messrs. Shay and Hooff, Assistant General Counsel
Mr. Koch, Deputy Director, Division of Research and Statistics
Mr. Smith, Associate Adviser, Division of Research and Statistics
Mr. Sammons, Associate Director, Division of International Finance
Mr. Irvine, Adviser, Division of International Finance
Messrs. Leavitt and Dahl, Assistant Directors, Division of Examinations
Mrs. Semia, Technical Assistant, Office of the Secretary
Mr. Morgan, Staff Assistant, Board Members' Offices
Miss Hart and Messrs. Forrestal, Sanders, and Via, Senior Attorneys, Legal Division
Messrs. Golden, Senior Economist, and Greenspun, Economist, Division of Research and Statistics
Mr. Egertson, Supervisory Review Examiner, Division of Examinations

Report on competitive factors. A report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of Tuscarora State Bank, Blairs Mills, Pennsylvania, and The Juniata Valley National Bank, Mufflintown, Pennsylvania, was approved unanimously for transmittal to the Comptroller. The conclusion of the report stated that the proposed merger would not have adverse competitive effects.

Application of Bank of Virginia. There had been distributed a memorandum dated November 29, 1966, from the Division of Examinations, with other pertinent papers, regarding the application of The Bank of Virginia, Richmond, Virginia, to merge with The Bank of LaCrosse, LaCrosse, Virginia. The Division recommended approval. The Banking Markets Section of the Division of Research and Statistics believed the application should be denied, on the grounds that it would have adverse effects on potential competition and offered at best only moderate improvements in convenience and needs. The Legal Division's view was that although the merger would not be anticompetitive within the meaning of the antitrust laws, there was reason to conclude that the consequences for competition would be somewhat adverse. The Legal Division thought the banking factors should also be viewed as somewhat adverse and that the convenience and needs factor promised only a slight benefit for the area served by the LaCrosse bank.

Governor Maisel mentioned two applications, one recently approved by the Comptroller of the Currency and one awaiting his decision, by a

relatively large national bank in Virginia for merger with smaller banks in towns not far from the communities involved in the Bank of Virginia application that was now before the Board. Governor Maisel suggested that it might be advisable to consult with the Coordinating Committee on Bank Regulation, since he did not believe it was possible for the Board to arrive at its best judgment in regard to the present application without knowing the Comptroller's decision in regard to the one pending before him.

Discussion of Governor Maisel's suggestion included comments raising the question whether referral to the Coordinating Committee would be consistent with the intent of Congress in its assignment of responsibilities under the Bank Merger Act. It was noted that the Committee was taking some steps looking toward more uniform standards among the several agencies in passing on mergers, and that there was in effect a channel for taking into account the views of other agencies through the advisory competitive factor reports. It was observed that, rather than attempt to bring other agencies into the Board's decisions, an alternative would be to expedite the studies now under way of Virginia banking markets.

Summary comments by Mr. Egertson were followed by staff responses to queries in which members of the Board sought clarification of certain points. The Banking Markets Section and the Legal Division also commented in explanation of the positions they had taken.

The Chairman then requested the Board members' views, and Governor Shepardson remarked that although Bank of Virginia had had a chronic capital problem, steps the bank had taken in the past two years and others that it planned in 1967 seemed to indicate good faith in working toward improvement. Moreover, recent money market conditions admittedly had been unfavorable for the obtaining of new bank capital. Although customers who wanted services that were unavailable from the LaCrosse bank might be able to obtain them by going to towns 15 miles or so away, it seemed clear that their convenience would be served if they could get those services in their home community. He did not agree with the view that a bank did not develop demand but rather met demands that had already come into being; he had seen many instances in which an agressive bank had been instrumental in generating demands. In his view, the considerations in the present case balanced on the constructive side rather than the adverse, and he did not believe concentration of bank resources had approached a dangerous level.

Governor Mitchell expressed the view that the balance of factors was slightly on the plus side. Studies of the banking structure of Virginia thus far available, he believed, showed that there were many credit-deficit areas. A State-wide branch banking system or holding company organization offered the possibility of meeting the needs of such areas, and he believed that was a major reason in support of approval in this particular case.

Governor Daane said he agreed with the general pattern of Governor Mitchell's thinking. The territory involved was sparse and poor, and it appeared from the Richmond Reserve Bank's field report that the majority of persons interviewed in the area felt the merger would be of benefit to the community. The management succession problem of the LaCrosse bank might have some substance, and the recruitment resources of Bank of Virginia would provide a solution.

Governor Maisel observed that although the case was marginal, the LaCrosse bank, with $6 million in deposits, was above the median size of banks in the United States. While he agreed that a State-wide system of holding company and branch banks would help to reach credit-deficit areas, he believed the purpose of such a system was defeated when, as in the present case, one or two institutions were doing all the merging in a particular area. It seemed to him that that was the point the Banking Markets Section and the Legal Division were making. It was a strong enough factor, in his opinion, to offset the marginal benefits of the merger under the banking factors.

Governor Brimmer stated that although the case was a close one, he had found the reasoning of the Banking Markets Section and the Legal Division more persuasive than that of the Examinations Division. A $6 million bank in rural Virginia was a fairly sizable institution. Moreover, in an agricultural community such as here involved, the 15 miles or so some customers had been going for banking services was no great

distance; in other cases it had been stressed that such a distance was no significant handicap in a rural area. He believed it was important to avoid allowing a high concentration of banking in Virginia to build up through approval of successive increments that in themselves were rather insignificant. He did not think the management succession problem of the LaCrosse bank was serious; the surviving bank intended to keep the chief officer of the LaCrosse bank as manager of the branch that would be operated there.

Chairman Martin commented that he thought anything that would help to improve the area in question would be a net plus. This particular proposal might not, but it seemed to offer a better possibility than maintenance of the status quo.

The application of The Bank of Virginia was thereupon approved, Governors Maisel and Brimmer dissenting. It was understood that an order and statement reflecting this decision would be drafted for the Board's consideration, and that a dissenting statement or statements also would be prepared.

Messrs. Smith, Via, Golden, Greenspun, and Egertson then withdrew from the meeting.

Gold loan (Item No. 1). On September 6, 1966, the Board approved a gold collateral loan to Bank of the Republic, the central bank of Colombia, in the amount of $13 million for 90 days, it being understood that no renewal would be considered. Bank of the Republic had made

three drawings against the loan -- $5 million on September 12, $5 million on September 19, and $3 million on September 29, 1966.

There had now been distributed a memorandum dated December 6, 1966, from the Division of International Finance stating that Bank of the Republic had asked that the maturity dates of the first two drawings be extended from December 12 and 19 to December 28, 1966 (which was the maturity date of the third drawing). The request was occasioned by certain monetary and financial conditions in Colombia, as described in the memorandum. The Departments of Treasury and State had registered no objection to the prospective adjustment of maturity, although the Treasury would oppose any extension of the loan beyond December 28. The directors of the Federal Reserve Bank of New York had authorized extension of the maturity dates of the two $5 million drawings to December 28 on the same terms and conditions (other than maturity dates) as the original loans, subject to the approval of the Board of Governors. The memorandum concluded with the recommendation that the Board approve the request, and a draft of telegram in those terms to the New York Reserve Bank was attached.

After discussion the telegram was approved unanimously in a form in which, at Governor Brimmer's suggestion, it would again specify that renewal of the loan beyond December 28 would not be considered. A copy of the telegram in the form in which it was transmitted is attached as Item No. 1.

Asian Development Bank (Item No. 2). There had been distributed a memorandum dated December 2, 1966, from the Legal Division regarding a request from the Bureau of the Budget for the Board's views on a proposed Executive Order, the principal purpose of which was to afford the Asian Development Bank the same privileges and immunities in the United States as were enjoyed by other international institutions of which the United States was a member. The principal provisions of the proposed Executive Order were set out in the memorandum, and attached was a draft of letter to the Budget Bureau that would state that the Board had no objection.

The letter was approved unanimously. A copy is attached as Item No. 2.

Bankers' acceptances. There had been distributed a memorandum dated November 28, 1966, from the Legal Division referring to the Board's assignment to the staff of the preparation of a revision of Regulation C, Acceptance by Member Banks of Drafts or Bills of Exchange. The provisions of that regulation, which imposed qualitative and quantitative restrictions on the creation of acceptances by member banks, indirectly affected the authority of the Reserve Banks under other regulations to discount and purchase bankers' acceptances. Consequently, the assignment related to all aspects of the System's role in the field of bankers' acceptances. At its meeting on September 12, 1966, the Conference of Presidents had approved a recommendation by the Committee on Discounts

and Credits "that the Subcommittee on Bankers' Acceptances make a study in depth of bankers' acceptances and recommend new System policies regarding this subject."

The memorandum noted that it seemed desirable at this time to present to the Board an outline of (1) rules governing bankers' acceptances as contained in the Federal Reserve Act and regulations and interpretations of the Board and (2) practices followed by the New York Reserve Bank in administering such rules (the practices were described in an attachment to the memorandum). It seemed advisable also to ascertain the Board's current philosophy with respect to bankers' acceptances -- particularly as to whether the System's role should become more active than at present or become predominantly passive. To point up the possibilities and problems, two alternatives to a continuation of the System's current role were outlined in attachments to the memorandum, although they were not intended to exhaust the possible approaches. The outlined alternatives were directed toward (1) greater assurance of the self-liquidating nature of bankers' acceptances discounted or purchased by the Federal Reserve, and (2) withdrawal of Federal Reserve qualitative rules governing such acceptances. The memorandum also commented on the merits and probable consequences of continuation of the present rules, and concluded with recommendations by the Legal Division, in the event the Board was in favor of such continuation, for rearrangement of the present rules among the several pertinent regulations.

After comments by Mr. Sanders, Governor Maisel observed that the treatment of bankers' acceptances was closely related to certain phases of the comprehensive study of the discount mechanism now in progress. Mr. Holland then commented on the contemplated coordination of efforts between the discount study task force and the Conference Subcommittee on Bankers' Acceptances. In essence, the feeling had been that, since the Subcommittee had been directed to make a study in depth, the study should proceed independently for the most part rather than as an adjunct to the discount study, but that the two study groups should keep in close touch.

Further comments indicated a view on the part of members of the Board that rather than adopt any policy positions at this time in regard to bankers' acceptances they would want to examine an objective analysis of the pros and cons deriving from the pending studies.

Messrs. Solomon (Adviser), Shay, Sammons, Irvine, and Dahl, and Miss Hart then withdrew from the meeting.

Contract rate of interest on deposits. There had been distributed a memorandum dated December 2, 1966, from the Legal Division regarding the rates of interest a bank may contract to pay on deposits. An interpretation of the Board had held that with respect to time deposits, open account, the Board's Regulation Q, Payment of Interest on Deposits, did not prevent a member bank from contracting to accept deposits in the future and to pay on them the maximum rate of interest in effect on the

contract date, irrespective of when the funds were received. A more troublesome question arose when the contract included a provision permitting modification of its terms to conform to the applicable regulations of the Board. Section 217.3(b) of Regulation Q provides that "every member bank shall take such action as may be necessary, as soon as possible consistently with its contractual obligations, to bring all of its outstanding certificates of deposit or other contracts into conformity with the provisions of this part." However, when the Board recently reduced the maximum permissible rate on certain kinds of time deposits it exempted such deposits already held by banks from the provisions of section 217.3(b). Under the present regulation and the recent interpretation, a member bank that submitted a bid for a deposit contract including a provision reserving the right to modify the obligation to pay interest would not be offering a bid as favorable to the depositor as a bank whose contract contained no provision for modification. This situation had worked an inequity especially with respect to bids by member banks for municipal deposits to be made during a one-year or two-year period.

Apart from legal considerations, there was also a policy question whether the Board considered it desirable for a bank to contract to pay interest, at the rate current on the contract date, for a stated period of time -- for example, for 20 years. The Legal Division in the past had favored giving member banks complete freedom with respect to

contracts for under one year, but modifying Regulation Q, with respect to all contracts for over one year, to reserve to the Board the right to require a reduction in the rate of interest to conform to the maximum prescribed in the Supplement to Regulation Q from time to time. The Federal Reserve Bank of New York had suggested, in lieu of exempting contracts expiring within one year from date of deposit, that the exemption be extended to time deposits with fixed maturities and with no provision for earlier withdrawal upon prior written notice to the bank. The Reserve Bank's Counsel had expressed the belief that providing in certificates of deposit that the rate of interest was subject to change "would render the certificate nonnegotiable on the gound that it would no longer contain a promise to pay a certain sum in money." The Federal Reserve Bank of Atlanta had suggested that deposit contracts with a maturity date up to five years from the date of deposit be exempted.

The proposal for modifying Regulation Q had been submitted to the Board most recently in September 1966 at the time of the Board's action reducing the maximum rate of interest on "consumer type" time deposits. At that time, the Board had indicated a desire to pursue the proposal by requesting comments from the Federal Deposit Insurance Corporation at an appropriate time and, if the Corporation agreed, subsequently publishing it in the Federal Register for comment. Subsequent informal discussions of the proposal with the legal staff of the Corporation gave the impression that the Corporation might not now be averse

to the proposal, although it had been in 1964 (apparently on the ground that it did not believe there was substantial evidence that banks were abusing the present provision by issuing long-term certificates containing unqualified promises to pay interest at the maximum rate in effect on the contract date). If the Board favored the proposal and its formal submission to the Corporation at this time, the Legal Division recommended sending the Corporation a letter inviting it to join in publishing a notice of proposed rule making for public comment. A draft of such a notice was attached to the memorandum.

In introductory comments Mr. Hackley brought out that the possible need for such an amendment to Regulation Q had been pointed up about two years ago when some banks began to offer certificates of deposit at a guaranteed rate of interest for a period of years. The question also had a bearing on the policy statement with respect to bank advertising that the Board and other supervisory authorities had been considering. The present situation presented inequities because some years ago the Board had suggested that member banks include in their certificates or passbooks a statement that the rate of interest was subject to change if the maximum permissible rate was changed by the Board. Some banks had conscientiously done so and were therefore bound by the language in Regulation Q to the effect that a bank must take such action as may be necessary, as soon as possible consistent with its contractual obligations, to bring its outstanding contracts

into conformity with a downward change in the maximum permissible rate of interest. Other banks that had not included such a reservation in their deposit contracts were able to continue paying the contractual rate of interest. And, as the memorandum had pointed out, a bank bidding for municipal or other deposits suffered a disadvantage if its rate of interest was subject to change whereas another bank's bid was based on a rate that could be guaranteed.

Governor Shepardson expressed the view that a limitation on the length of time a bank could guarantee a rate appeared desirable, but where the line should be set was not so clear; a five-year period might be excessive, but perhaps a one-year limitation would be stricter than needed. If two-year contracts were a general practice, perhaps there was merit in allowing banks to guarantee a rate for that term.

Governor Maisel stated that the central question seemed to be bank competition for certain kinds of money, especially municipal funds, which could be attracted more readily if a guaranteed rate could be offered. In his opinion some flexibility was warranted.

In response to a request by Governor Brimmer for discussion of the New York Reserve Bank's point that a one-year limitation would be detrimental to the marketing of certificates of deposit, the staff indicated that the argument appeared to have some merit. However, if the notice of proposed rule making were published, the volume and nature of public comments should help to clarify whether it would be desirable

to set a limit at one or two or five years. The fundamental question was whether the Board wished to encourage bank activity in certificates of deposit with one-year or two-year terms, but not longer-term ones. The Board could draw the line according to whatever structure it considered proper.

Governor Brimmer stated that if it was known in advance that a one-year limitation would foreclose most of the activity in certificates of deposit of longer term, he would object to such a limitation and to the publication of the proposal in a form specifying such a limitation.

Governor Mitchell expressed the view that certainty between a bank and its customer was essential, and therefore there was a question whether the Board should reserve the right to force changes in contract rates beyond a certain time limit. If a limit had to be set, he agreed that one year was too short, and he might object to five years as too long. Two or three years might be the best choice from an over-all standpoint.

Mr. Holland commented that the research staff had been giving thought for some time to what would be a desirable maturity structure among money market instruments. It was not an open-and-shut case; there could be varying judgments as to what would be an appropriate maturity structure that would combine a safe proportion of volatile funds with a sufficient balance of longer and more stable maturities. He suggested that before the Board published the notice of proposed rule making it

might wish to have the economic pros and cons analyzed in a research memorandum.

There was unanimous agreement that the question should be deferred pending preparation of an economic analysis such as Mr. Holland had suggested.

Open market operations in agency obligations (Item No. 3). Pursuant to the discussion at yesterday's meeting there had been distributed a draft of statement, for possible release in conjunction with the weekly statement of condition of the Federal Reserve Banks as of December 7, 1966, regarding the first repurchase agreements involving U. S. Government agency obligations under the authority granted in Public Law 89-597, approved September 21, 1966.

After discussion the statement was approved unanimously for issuance in the form attached as Item No. 3.

Members of the staff not concerned with the following matters then withdrew from the meeting.

Designation of Chairman and Deputy Chairman. The Board designated Dolph Simons, Editor and President of the Lawrence Daily Journal-World, Lawrence, Kansas, as Chairman and Federal Reserve Agent at the Federal Reserve Bank of Kansas City for the year 1967, with compensation fixed at an amount equal to the fees that would be payable to any other director of the Kansas City Bank for equivalent time and attendance to official business. The Board also appointed Dean A. McGee,

Chairman of the Board, Kerr-McGee Corporation, Oklahoma City, Oklahoma, as Deputy Chairman of the Federal Reserve Bank of Kansas City for the year 1967.

Director appointments. It was agreed to ascertain through the Chairman of the Federal Reserve Bank of Kansas City whether the following persons would accept appointment if tendered as Reserve Bank or branch directors for the terms indicated, with the understanding that if it were found that they would accept, the appointments would be made:

Edd H. Bailey, President and Chief Executive Officer, Union Pacific Railway, Omaha, Nebraska, as a Class C director of the Federal Reserve Bank of Kansas City for the three-year term beginning January 1, 1967. (If it developed that Mr. Bailey could not accept the appointment, it was understood that inquiry would be made with respect to Willard Deere Hosford, Jr., Vice President, John Deere Company, Omaha, Nebraska.)

D. R. C. Brown, President, Aspen Skiing Corporation, Aspen, Colorado, as a director of the Denver Branch of the Federal Reserve Bank of Kansas City for the two-year term beginning January 1, 1967.

Florin Zaloudek, Manager, J. I. Case, Kremlin, Oklahoma, as a director of the Oklahoma City Branch of the Federal Reserve Bank of Kansas City for the two-year term beginning January 1, 1967.

Willard Deere Hosford, Jr., as a director of the Omaha Branch of the Federal Reserve Bank of Kansas City for the two-year term beginning January 1, 1967. (If it developed that Mr. Hosford was appointed a Class C director, or was otherwise unavailable for the Omaha Branch appointment, it was understood that inquiry would be made with respect to Willis A. Strauss, President, Northern Natural Gas Company, Omaha, Nebraska.)

Secretary's Note: It having been ascertained that Mr. Bailey was unavailable for the Class C directorship but that Mr. Hosford would accept the appointment if tendered, an appointment telegram was sent to Mr. Hosford on December 9, 1966. Word having been received that acceptances would be forthcoming, appointment telegrams were sent to Mr. Brown on December 8 and to Mr. Zaloudek on December 9, 1966.

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

Larry D. Higgins as Analyst, Division of Data Processing, with basic annual salary at the rate of $11,306, effective the date of entrance upon duty. (It was understood that the Board would pay for the moving and transportation expenses of Mr. Higgins and his family from Ogden, Utah, to Washington, D. C.)

Salary increases, effective December 18, 1966

Name and title	Division	Basic annual salary From	Basic annual salary To
	Legal		
Barbara Jane Sawyer, Stenographer		$4,269	$4,776
	International Finance		
Nancy L. White, Stenographer		4,269	4,776
	Examinations		
Bernice Bell, Secretary		5,331	5,867
	Data Processing		
Jane Ellen Davis, Programmer ("Trainee" deleted from title)		5,331	6,451

Salary increases, effective December 18, 1966 (continued)

Name and title	Division	Basic annual salary From	Basic annual salary To
	Data Processing		
Marilyn F. Metzger, Graphic Illustrator ("Trainee" deleted from title)		$4,269	$4,776
Christine V. Sebastian, Graphic Illustrator ("Trainee" deleted from title)		4,269	4,776
Dorothy B. Slagle, Statistical Assistant		5,256	5,683
Evelyn M. Swanner, Graphic Illustrator ("Trainee" deleted from title)		4,269	4,776

Transfer

Carrie Lee Hobson, Cafeteria Helper, Division of Administrative Services, from a part-time position to a full-time position, with basic annual salary at the rate of $3,609, effective December 7, 1966.

Acceptance of resignation

Judith S. Scully, Secretary, Division of International Finance, effective the close of business December 16, 1966.

Secretary

TELEGRAM
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 1
12/7/66

December 7, 1966.

Waage - New York

Re your wire of December 1, Board has approved extension from December 12 and 19 to December 28, 1966, of maturity dates of two drawings of $5 million each against $13 million gold loan made by Federal Reserve Bank of New York to Banco de la Republica of Colombia, subject in all other respects to the same terms and conditions as those originally approved.

As indicated in Board wire of September 6, 1966, approving granting of loan, Board is not prepared to consider renewal thereof beyond December 28 maturity date.

(Signed) Merritt Sherman
Sherman

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

Item No. 2
12/7/66

OFFICE OF THE CHAIRMAN

December 8, 1966

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

Dear Charlie:

This is in reply to your letter of November 30, 1966, requesting the views of the Board with respect to a proposed Executive Order entitled "Enjoyment of Certain Privileges, Exemptions, and Immunities by the Asian Development Bank and Coordination of United States Policies with Regard to the Bank".

The Board has no objection to the implementation of this Executive Order.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Item No. 3
12/7/66

For immediate release. December 8, 1966.

The Federal Reserve System made known today in its Weekly Statement of Condition of the Federal Reserve Banks that the System's first repurchase agreements involving U. S. Government Agency obligations were made, under authorization by the System Open Market Committee, during the week ended December 7.

At the end of that period, the Condition Statement showed, the Federal Reserve held $21 million in these issues under repurchase agreements similar in terms and conditions to its repurchase agreements involving direct obligations of the United States.

The repurchase agreements were entered into pursuant to a recent Act of Congress enlarging the authority of the Federal Reserve to engage in transactions in obligations of the various U. S. Government agencies in addition to the direct obligations of the United States.

In view of the importance of the market for Agency issues, repurchase agreements involving these securities increase the scope of the market in which System operations may be conducted, thus adding to the means available to the System for supplying and absorbing reserves.

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