

Minutes for June 10, 1971

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 proposed to place in the record of policy actions required to be kept under the provisions of section 10 of the Federal Reserve Act entries covering the items in this set of minutes commencing on the pages and dealing with the subjects referred to below:

Page 4 Amendment to Regulation Y, Bank Holding Companies.

Page 9 Policy Statement on the Payments Mechanism.

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.

Chairman Burns



Governor Robertson

Governor Mitchell



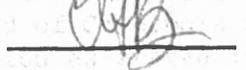
Governor Daane



Governor Maisel



Governor Brimmer



Governor Sherrill

Note: No changes from draft minutes.

Minutes of the Board of Governors of the Federal Reserve System
on Thursday, June 10, 1971. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Burns, Chairman
Mr. Robertson, Vice Chairman
Mr. Mitchell
Mr. Maisel
Mr. Brimmer
Mr. Sherrill

Mr. Holland, Secretary
Mr. Kenyon, Deputy Secretary
Mr. Johnson, Director, Division of Personnel
Administration

Cleveland Bank. The Board was informed of the wording of action proposed to be taken by the Board of Directors of the Federal Reserve Bank of Cleveland appointing Dr. Willis J. Winn as President of the Bank, effective September 1, 1971, for the unexpired portion of the five-year term ending February 29, 1976, with salary at an annual rate of \$51,000 for the remainder of the year 1971.

The appointment of Dr. Winn was approved unanimously, along with payment to him of salary at the annual rate of \$51,000 for the period September 1 through December 31, 1971.

The Board was also informed, in this connection, that the directors proposed to place on record the following understanding:

It was further agreed that the Board of Directors of the Bank will review Dr. Winn's performance within one year, and, based upon that review, will consider recommending a salary adjustment at the end of his first year's service, subject to the approval of the Board of Governors. It is understood that the Board of Governors would waive the 2-year adjustment provision as stated in the Board's officer salary guidelines--that is, that the Board of Governors would be willing to give consideration to whatever salary increase might be recommended by the Cleveland Reserve Bank in September 1972.

6/10/71

-2-

On the understanding that the foregoing wording did not mean that the Board of Governors would be making any commitment to approve a salary increase in September 1972, but instead only that it would agree to consider whatever increase might be recommended at that time, the Board indicated that it would have no objection to the placing on record of the foregoing statement.

The following entered the room at this point:

Mr. Molony, Assistant to the Board
Mr. Cardon, Assistant to the Board
Mr. O'Brien, Special Assistant to the Board
Mr. O'Connell, General Counsel
Mr. McIntosh, Director, Division of Federal Reserve
Bank Operations
Mr. Solomon, Director, Division of Supervision and
Regulation
Mr. Slocum, Director, Division of Data Processing
Mr. Sanders, Deputy General Counsel
Mr. Noble, Assistant General Counsel
Mr. Gemmill, Associate Adviser, Division of
International Finance
Mr. Barnes, Assistant Director, Division of Federal
Reserve Bank Operations
Mr. Leavitt, Deputy Director, Division of Supervision
and Regulation
Mr. Smith, Assistant Director, Division of Supervision
and Regulation
Mr. Watt, Assistant Director, Division of Data Processing
Mrs. Semia, Technical Assistant, Office of the Secretary

Supporting staff of the respective divisions.

Consent calendar. The Board approved unanimously an application by Great Lakes Holding Company, Kalamazoo, Michigan, to become a bank holding company by acquiring shares of Industrial State Bank & Trust Company, Kalamazoo, Michigan, and authorized the issuance of an order reflecting that decision. A copy of the order is attached as Item No. 1.

6/10/71

-3-

The Board approved unanimously a letter to Counsel for Associated Mortgage Investors, a Massachusetts business trust, in response to a request for a determination that the share purchase plan of AMI qualified for the exemption from credit limitations provided in section 207.4(a)(2) of Regulation G, Securities Credit by Persons Other than Banks, Brokers, or Dealers. A copy of the letter is attached as Item No. 2.

With regard to the foregoing matter, Governor Robertson expressed the opinion that the pertinent provisions of Regulation G, as presently written, were misleading and that the Board should consider amending the regulation. He had a suggestion for such an amendment that he would refer to the staff for consideration.

Regarding Regulation T, Sullivan & Cromwell, a law firm of New York City, had requested that the Board amend Regulation T, Credit by Brokers and Dealers, to permit U.S. brokers or dealers to arrange for extensions of credit abroad in Euro-dollars to foreign subsidiaries of U.S. corporations, where the subsidiary is borrowing for the benefit of the U.S. parent.

As reported in a memorandum of June 2, 1971, the staff recommended against an amendment to Regulation T since that would add another exemption to an already complex regulation for the benefit of a limited group of broker/dealers. As an alternative, the staff recommended that the Board issue an interpretation to the effect that it viewed the two-step transaction in reality and in substance as one integrated credit transaction solely for the benefit of the U.S. parent.

6/10/71

-4-

After discussion, the Board agreed unanimously to the issuance of such an interpretation. (Note: Upon further examination into the matter subsequent to the meeting, the staff determined that the issuance of a general interpretation was unnecessary. Accordingly, the substance of the approved Board view was incorporated into a letter to the Federal Reserve Bank of New York. A copy of the letter is attached as Item No. 3.)

Truth in lending litigation. A Federal District Court hearing a private class action against Mobil Oil Corporation that involved allegations of violation of the Truth in Lending Act had requested the views of the Board and the Federal Trade Commission as to whether Mobil's credit card plan was within the scope of Regulation Z, Truth in Lending, during the period in question.

There had been prepared a joint Board-FTC amicus curiae brief that the staff of the Board, in conjunction with the staff of the Commission, proposed to ask the Department of Justice to file in response to the Court's request.

The filing of the brief was authorized. A copy of the brief has been placed in the Board's files. A copy of the letter sent to the Department of Justice is attached as Item No. 4.

Bank Holding Company Act: data processing. The Board had published for comment a proposal to amend Regulation Y, Bank Holding Companies, so as to permit a bank holding company to acquire a subsidiary that would engage in the following:

6/10/71

-5-

"providing bookkeeping or data processing services for (i) the holding company or its subsidiaries, (ii) other financial institutions or (iii) others, Provided, That the value of services performed by the company for such persons is not a principal portion of the total value of all such services performed."

After review of comments received and the record of a hearing held on April 16, 1971, the Legal Division advised in a memorandum of June 7, 1971, that in its opinion a qualitative description of services that the Board determined were closely related to banking was legally more sound and administratively more workable than any description involving a quantitative test of services that might be performed for the public. The Division recommended that the Board adopt an amendment to section 222.4(a) of Regulation Y to permit bank holding companies, directly or through a subsidiary, to engage in:

"storing or processing banking, financial, or other economic data, such as performing payroll, accounts receivable or payable, or billing services."

The Division believed that certain activities involving the use of computers in performing permissible data processing services could properly be regarded as incidental activities necessary to carry on the permissible services. Such incidental activities would include sale of computer time and sale of a by-product of the development of a program for a permissible data processing activity. For clarification, the Division recommended that the Board add a paragraph to its recently adopted interpretation regarding activities closely related to banking.

efficient and economical data processing systems by the market area.

6/10/71

-6-

The Division also believed that some allowance should be made for performance of nonfinancially related data processing by a holding company in a small community where data processing needs would be most efficiently and economically fulfilled by a supplier that had broader service capability than the regulation would generally permit. Accordingly, the Division recommended that the interpretation indicate that performing such services in those circumstances was regarded as performing incidental activities necessary to carry on permissible activities.

In discussion, Governor Mitchell expressed the view that the staff had proposed a defensible solution to the problem. He suggested, however, that the statement of permissible activities be shortened to provide simply for "storing or processing banking, financial, or other economic data", and that the illustrations be transferred to the proposed interpretation. The discussion then turned to a sentence in the proposed interpretation that indicated that the Board would regard as incidental activities necessary to carry on permissible activities in this area (data processing) the following: (i) making excess computer time available to anyone so long as the only involvement by the holding company system is furnishing the facility and an operator; (ii) selling a by-product of the development of a program for a permissible data processing activity; and (iii) furnishing any data processing service upon request of a customer if that is necessary to provide the most efficient and economical data processing services in the market area.

6/10/71

-7-

Question was raised whether (i) would contemplate furnishing personnel other than operators, and whether it would contemplate furnishing programs. Mr. Slocum observed that the problem involved was selling excess computer time as against selling excess computer services. It was possible, although not likely, that today there would be much selling of excess computer time without any related services. It was then suggested that the wording of (i) be changed to refer to the furnishing of the facility and personnel necessarily incident thereto.

In connection with the language of (iii), Governor Robertson commented that opponents of entry of bank holding companies into data processing argued that the holding companies and their subsidiary banks could provide services more cheaply and therefore could drive others out of business. Governor Sherrill noted that (iii) embodied a concept intended to have applicability within the small-town context, and after some discussion it was generally agreed that it would be better to refer to the furnishing of any data processing services if they were not otherwise reasonably available in the relevant market area.

In response to a question, Governor Maisel said he would interpret that language to mean that a holding company could not go in and start offering nonfinancial types of services, but if there were no computer services available within the relevant market area a holding company could offer such services. He stated that the alternative words earlier suggested for transfer to the introduction be left in the regulatory language.

6/10/71

-8-

This led to the question of the permissibility of advertising and whether any prohibition, if one was intended, should be included in the interpretation. After consideration of this point, the Chairman suggested that a prohibition against advertising might carry implications that were not intended and that the problem of advertising could be dealt with later if a problem arose, in which case an amendment to the regulation might have to be considered.

Governor Robertson then asked for clarification of the term "or other economic data", as used in the proposed statement that it would be permissible for bank holding companies to engage in storing or processing banking, financial, or other economic data. He inquired what would be excluded, and an example cited was production data. The Chairman then commented that the words "such as performing payroll, accounts receivable or payable, or billing services", which Governor Mitchell had earlier suggested be moved over to the interpretation, conveyed to him a meaning that was of some value in defining the term "economic data." Essentially, he felt that the Board either should give authority broadly to work with economic and financial data or it should not. Governor Mitchell suggested use of the words "banking, financial, and related economic data", and several Board members indicated that they would be agreeable to such a formulation. There was also agreement with a suggestion by the Chairman that the illustrative words earlier suggested for transfer to the interpretation be left in the regulatory language.

6/10/71

-9-

Governor Robertson stated that he could go along with the proposal, subject to the amendments agreed upon at this meeting, and other Board members expressed themselves to the same effect. Certain technical changes in the proposal were then agreed upon.

Accordingly, unanimous approval was given to the amendment of section 222.4(a) of Regulation Y, effective July 1, 1971, along with the issuance of the interpretive material. Attached under Item No. 5 are copies of the press statement subsequently issued, and of the regulatory amendment and related material as published in the Federal Register.

Policy Statement on the Payments Mechanism. For some time the System Steering Committee on Improving the Payments Mechanism, of which Governor Mitchell was Chairman, had been concerned with the development of a statement of policy concerning critical aspects of the payments mechanism. Such a statement had been developed, and it was submitted to the Board with a memorandum from Governor Mitchell dated June 7, 1971, with a recommendation that it be adopted and issued.

The memorandum pointed out that recent developments that had permitted the banking system to cope better with the growing volume of cash items had had little effect on the time required to collect a cash item, the number of times a cash item must be handled during the process of collection, and the availability of proceeds of a cash item. In these circumstances, it was the view of the Committee that every

6/10/71

-10-

reasonable effort should be made (1) to reduce wherever possible the volume of items now being processed where the money payments could be made more expeditiously and economically in other ways, (2) to expedite the collection of items by minimizing the number of handlings, and (3) to reduce commercial bank and Federal Reserve float resulting from collection activities.

Other materials submitted with the policy statement included a proposed letter to the Presidents of the Federal Reserve Banks and a draft of press release.

Chairman Burns inquired about the likely source and nature of any objections, and Governor Mitchell commented on the history of the problem and the Steering Committee's studies. It was his opinion that attitudes antagonistic to the proposed changes in the payments system had substantially eroded. Within the System there was no longer any significant body of opposition, and he believed that opposition within the commercial banking sector likewise had diminished.

Governor Maisel, also a member of the Steering Committee, observed that whenever a more efficient system was introduced, parties who had been profiting from the less efficient system could be expected to object. Thus, if float were cut down, some banks could be expected to object.

Governor Sherrill, likewise a member of the Steering Committee, noted that the System was addressing itself to a problem that was down

6/10/71

-11-

the road. The System must anticipate the problem and stay ahead of it. He explained the objectives of the proposed procedures and pointed out the difficulties that would be involved if the commercial banks attempted to introduce a duplicate system.

Governor Brimmer noted that it appeared that additional services would be provided without charge to nonmember banks, for example, in connection with the operations of the regional check clearing centers, which would run counter to a basic principle of the Federal Reserve System.

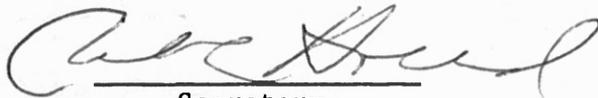
In reply, members of the Steering Committee said that this was a problem with which the Committee had been concerned. Full participation in the new system was necessary if it was to work. However, the Steering Committee had agreed that there appeared to be ways in which it would be possible to differentiate between member and nonmember banks insofar as participation in the regional clearing centers was concerned without impeding the efficient operation of the centers. Those possibilities were listed by Governor Mitchell, who indicated that the problem was still under study. Mr. McIntosh pointed out that the proposed letter to the Reserve Bank Presidents included a sentence stating that it was generally expected that procedures governing participation in regional clearing facilities would be conducted in such a way that where possible due precedence was given to member banks. However, Governor Brimmer observed that a different tone was reflected in the proposed press release.

6/10/71

Governor Brimmer then suggested that some of the flavor of the points brought out in Governor Sherrill's comments today concerning the check collection problem and the objectives of the new system be included in the press release, and it was agreed that that would be done.

The issuance of the Policy Statement was then approved unanimously. Attached under Item No. 6 are copies of the press release, the Policy Statement, and the letter sent to the Reserve Bank Presidents.

The meeting then adjourned.



Secretary

ORDER APPROVING ACTION TO
A BANK HOLDING COMPANY

There has been before the Board of Governors, pursuant to section 1(a)(1) of the Bank Holding Company Act of 1956 (12 U.S.C. 1841(a)(1)), and section 221.1(a) of Federal Reserve Regulation Y (12 CFR 221.1(a)), an application by Great Lakes Holding Company, Eastland, Michigan, for the Board's prior approval of action whereby applicant would become a bank holding company through the acquisition of not less than 89 per cent, nor more than 99 per cent, of the voting shares of Industrial State Bank & Trust Company, Eastland, Michigan.

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of

GREAT LAKES HOLDING COMPANY,
Kalamazoo, Michigan,

for approval of action to become a bank
holding company through the acquisition
of not less than 89 per cent, nor more
than 92 per cent, of the voting shares
of Industrial State Bank & Trust
Company, Kalamazoo, Michigan.

ORDER APPROVING ACTION TO BECOME
A BANK HOLDING COMPANY

There has come before the Board of Governors, pursuant to
section 3(a)(1) of the Bank Holding Company Act of 1956 (12 U.S.C.
1842(a)(1)), and section 222.3(a) of Federal Reserve Regulation Y
(12 CFR 222.3(a)), an application by Great Lakes Holding Company,
Kalamazoo, Michigan, for the Board's prior approval of action whereby
Applicant would become a bank holding company through the acquisition
of not less than 89 per cent, nor more than 92 per cent, of the voting
shares of Industrial State Bank & Trust Company, Kalamazoo, Michigan.

-2-

As required by section 3(b) of the Act, the Board gave written notice of receipt of the application to the Michigan Commissioner of Financial Institutions and requested his views and recommendation. The Commissioner recommended approval of the application.

Notice of receipt of the application was published in the Federal Register on June 2, 1971 (36 Federal Register 10756), providing an opportunity for interested persons to submit comments and views with respect to the proposal. A copy of the application was forwarded to the United States Department of Justice for its consideration. Time for filing comments and views has expired and all those received have been considered by the Board.

The Board has considered the application in the light of the factors set forth in section 3(c) of the Act, including the effect of the proposed acquisition on competition, the financial and managerial resources and future prospects of the Applicant and the banks concerned, and the convenience and needs of the communities to be served, and finds that:

Applicant is a nonoperating Michigan corporation recently formed for the purpose of acquiring Bank with deposits of \$106 million as of December 31, 1970. As Applicant has no present operations or subsidiaries, consummation of the proposal would eliminate neither existing nor potential competition, and there would be no adverse effects on competing banks.

13

The acquisition proposed herein would result in Bank's becoming a stronger and more viable banking institution, and a more effective competitor in the relevant area. Banking factors involved weigh heavily in favor of approval of the application since Applicant will provide Bank with an additional \$2 million of needed capital and has formulated plans to improve Bank's present operating procedures. The Michigan Commissioner of Financial Institutions has recommended approval of the application based on the proposed improvement of Bank's capital position and management under Applicant's control. Whereas there is no indication that present banking needs of the area are not being adequately served at the present time, it is apparent that consummation of the proposal would strengthen the Bank and enable it to serve better the banking needs of its area. Therefore, considerations relating to the convenience and needs of the communities to be served also lend weight in favor of approval of the application. It is the Board's judgment that the proposed transaction would be in the public interest and that the application should be approved.

It is hereby ordered, For the reasons set forth above, that said application be and hereby is approved, provided that the acquisition so approved shall not be consummated (a) before the thirtieth calendar day following the date of this Order, or (b) later than three months after the date of this Order, unless such period is extended for

-4-

good cause by the Board, or by the Federal Reserve Bank of Chicago
pursuant to delegated authority.

By order of the Board of Governors, June 11, 1971.

Voting for this action: Chairman Burns and Governors Robertson,
Mitchell, Maisel, Brimmer, and Sherrill.

Absent and not voting: Governor Daane.

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon
Deputy Secretary

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2
6/10/71

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 10, 1971



Mr. John P. McEnroe
Paul, Weiss, Goldberg,
Rifkind, Wharton & Garrison
345 Park Avenue
New York, New York 10022

Dear Mr. McEnroe:

This refers to your letter dated March 31, 1971, requesting the Board to determine that the Share Purchase Plan (Plan) of Associated Mortgage Investors (AMI) qualifies for the exemption from the credit limitations afforded under section 207.4(a)(2) of Regulation G, "Securities Credit by Persons other than Banks, Brokers, and Dealers". Trustees and officers of AMI and key employees of the Trust's Manager, Associated Mortgage Managers (Ltd.) (AMM) (hereinafter referred to as Purchasers) will be eligible to participate in the plan, which will be administered by a committee consisting of Trustees and officers of AMI, and will enable Purchasers to acquire AMI shares on credit with repayments to be made to AMI over a 10-year period.

To qualify for exemption from the initial margin requirements of Regulation C, pursuant to subparagraph (2) of section 207.4(a), a plan must require the borrowing officer or employee to make installment payments at least quarterly, for at least three years from the extension of the credit, in an amount per annum at least equal to 20 per cent of the "deficiency" - the amount by which the credit exceeds the maximum loan value of the collateral as prescribed by section 207.5, the Supplement to Regulation C. In addition, the plan must provide that the officer or employee may not withdraw, pledge, or otherwise dispose of all or any part of the stock until (1) all repayments have been made for the three-year period and the deficiency has been repaid, or (2) as

Mr. John P. McEnroe

-2-

a result of the repayments described and/or an increase in the market value of the collateral, the credit still owing is no longer greater than the amount normally permitted to be lent under the margin rules.

However, under AMI's plan, at the time of the credit extension, the Purchaser would pay 5 per cent of the purchase price to AMI, followed by 39 equal quarterly installments of $1\frac{1}{4}$ per cent each of the purchase price, equivalent to a total of $48\frac{3}{4}$ per cent of the credit, plus accrued interest due at the rate of 5 per cent per annum, and a final installment of $46\frac{1}{4}$ per cent of the purchase price plus accrued interest 10 years from the date of the extension of the credit. Under such plan, repayments made quarterly will be equivalent to approximately $8\frac{1}{3}$ per cent of the deficiency each year (25 per cent at the end of three years), a lesser percentage than the 60 per cent at the end of three years provided for in section 207.4(a)(2)(ii). To eliminate some of the disparity between the deficiency reduction likely to be achieved as a result of the plan's projected repayments and the percentage specified in section 207.4(a)(2) of Regulation G, AMI's Plan will provide that a Purchaser may not discontinue participation in the plan prior to the expiration of seven years at which time $58\frac{1}{3}$ per cent of the deficiency would be reduced. Hence, through a stretch-out of the required three-year paydown period to seven years, the Plan would substitute a lower paydown over a longer period for the regulation's higher paydown over a shorter period. Upon consideration of the plan, the Board has decided to grant AMI's application to permit repayment of the deficiency to be made by the lesser amount described hereinbefore, provided that such repayment is subject to the terms and conditions hereinabove set forth.

Section 207.4(a)(2)(iii) of Regulation G provides that the restriction as to access to the stock serving as collateral for the credit need not apply when the collateral is required to be sold to meet emergency expenses arising from circumstances not reasonably foreseeable at the time of the extension of credit. Emergency expenses are defined in the regulation to include involuntary termination of employment of the Purchaser. It is noted however that under AMI's plan, as presently structured, the Purchaser could withdraw stock at any time.

"upon the retirement of the Purchaser after age 62 (or in the case of a Trustee after age 70) or earlier retirement of the Purchaser due to ill health".
(paragraph (10)(iii))

While it appears that an early retirement of the Purchaser caused by ill health could result in emergency expenses arising from

BOARD OF DIRECTORS

Mr. John P. McEnroe -3-

circumstances not reasonably foreseeable when the credit was extended, necessitating that collateral be sold to meet such expenses, the Board considers it the better view that regular retirement is usually a foreseeable event. Consequently, the Board's granting of AMI's application hereinbefore stipulated is contingent upon modification of the Plan so that, in connection with the provisions set forth in paragraph (9) and (10) of the Plan as presently submitted, with respect to the withdrawal of shares during the required paydown period, paragraph (10) (iii), as cited hereinbefore, will be stricken.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Deputy Secretary

Dear Mr. Sloan:

This refers to a letter of
to you by Richard [unclear]
September 16, 1954, and
of the Board's staff, and
Regulation F to activities of National Student
Accounting extension of credit period.

The latter are both specifically referred to in
the Board might propose to implement the [unclear]
the 1934 Act under section 7 of the Securities Law of 1933, [unclear]
1934 (Public Law 48-188, Section 7(a)). The Board's [unclear]
Board's representation should not arise under the [unclear]
regulation the type of transaction be described. However, the
Board has acted whether Regulation F presently applied to [unclear]
transaction.

It is understood that [unclear] [unclear] [unclear]
[unclear] in Europe, and [unclear] [unclear] [unclear]
[unclear] subsidiary of a U.S. corporation. The [unclear]
[unclear] offered to foreign holders of [unclear]
[unclear] dollars. The proceeds are loaned by the [unclear]
U.S. parent in return for an instrument of [unclear]
[unclear] to those of the obligations [unclear]
[unclear]. The instrument of indebtedness is not [unclear]
[unclear], or pledged by the subsidiary to [unclear]
[unclear] does not use the proceeds of the loan [unclear]
[unclear] or carrying out [unclear].

In many instances, the [unclear] [unclear] [unclear]
by the U.S. parent [unclear] within the [unclear]
purpose of the 1934 Act (15 U.S.C. [unclear] [unclear] security

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3
6/10/71

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 22, 1971



Mr. Thomas G. Sloane
Deputy General Counsel
Federal Reserve Bank of New York
New York, New York 10045

Dear Mr. Sloane:

This refers to a letter of January 14, 1971, addressed to you by Mitchell Brock, Esq., of Sullivan & Cromwell, and a subsequent letter of March 16, 1971, from Mr. Brock to Mr. Schoedel of the Board's staff. Both letters concern the applicability of Regulation T to activities of United States securities dealers in arranging extensions of credit abroad.

The letters are both specifically directed toward rules the Board might propose in implementing its authority pursuant to the 1970 amendments to section 7 of the Securities Exchange Act of 1934 (Public Law 91-508, section 301). Mr. Brock urges that the Board's implementation should not bring within the coverage of the regulation the type of transaction he describes. However, the question has arisen whether Regulation T presently applies to such transaction.

It is understood that U.S. dealers are offering abroad, particularly in Europe, debt obligations issued by a wholly-owned financing subsidiary of a U.S. corporation. The obligations are generally offered to foreign holders of Eurodollars and are repayable in dollars. The proceeds are loaned by the subsidiary to its U.S. parent in return for an instrument of indebtedness having terms comparable to those of the obligations issued by the subsidiary. The instrument of indebtedness is not sold, assigned, transferred, or pledged by the subsidiary to a third party. The U.S. parent does not use the proceeds of the loan for the purpose of purchasing or carrying securities.

In many instances, the instrument of indebtedness issued by the U.S. parent falls within the definition of a security for purposes of the 1934 Act (15 U.S.C. 78c(a)(10)). Such a security

Mr. Thomas G. Sloane

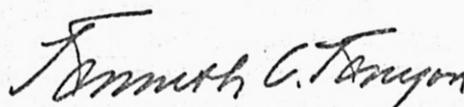
-2-

is not to be registered on a national securities exchange or included on the Board's list of OTC securities. Under Regulation T, a dealer may extend credit only to purchase a security that is so registered or listed. Section 220.7(a) prohibits a dealer from arranging for the extension of credit by any person to any customer of the dealer except on the same terms the dealer could extend such credit. Consequently, if the transaction is viewed as the dealer arranging for the subsidiary to borrow to purchase a security, the dealer would be violating section 220.7(a).

The Board believes that, in the circumstances described, the security issued by the parent to its wholly-owned subsidiary may be disregarded for the purposes of section 220.7(a). The essence of the transaction is that the U.S. parent obtains dollar funds abroad through its subsidiary for purposes that are consistent with Regulation T. Therefore, the dealer may arrange for the subsidiary's borrowing without violating section 220.7(a).

The Board and its staff will keep this matter in mind in implementing the 1970 amendments to Section 7 of the Act, as Mr. Brock requested. However, in view of the question that has been raised under the present regulation, you may wish to convey the Board's views expressed herein to Mr. Brock for his information.

Very truly yours,



Kenneth A. Kenyon
Deputy Secretary

1448

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 4
6/10/71

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 14, 1971

I. Patrick Gray, III, Esquire
Assistant Attorney General
Civil Division
United States Department of Justice
Washington, D.C. 20530

Attention: Harland F. Leathers, Esquire
Chief, General Litigation Section

Re: Garland v. Mobil Oil Corporation
N.D. ILL. 69 C 2165

Dear Mr. Gray:

By letter of April 16, 1971, Judge A. L. Marovitz asked for the views of the Board and the Federal Trade Commission on certain questions raised in connection with motions for summary judgment in the above identified class action which involves allegations of violations of the Truth in Lending Act. Although the Judge's letter requests submission of the views by May 17, 1971, the period for reply has been extended by him until June 18, 1971. The enclosed amicus curiae brief has been prepared jointly by the staff of the Board and the Federal Trade Commission, although the Commission has not yet formally approved submission of a joint brief, as opposed to independent briefs. Should that approval not be forthcoming, the brief would have to be retyped to delete the references to the Commission. Pursuant to Mr. Griffith L. Garwood's conversation with Mr. Harland Leathers, the brief is being transmitted to you for review and submission to the Court. The case has been reassigned to Judge Thomas R. McMillen. Mr. Charles C. Moore of the staff of the Federal Trade Commission will contact Mr. Leathers by Wednesday, June 16, on the status of the Commission's participation.

L. Patrick Gray, III, Esquire

-2-

The brief refers to a previous brief filed on the Board's behalf in the Fifth Circuit appeal of Leila Mourning v. Family Publications Service (No. 71-1150). The Mourning brief is included as an attachment. In order to insure that inclusion of the Mourning brief and submission of the views expressed in the Garland brief do not prejudice the Government's position in Mourning, we have previously asked Michael C. Farrar of the Appellate Section, who has responsibility for the Mourning case, to review the Garland brief. Mr. Farrar has indicated that he finds no objection, from the point of view of Mourning, to submitting the Garland brief with the Mourning brief as an attachment.

Enclosed with this letter are copies of Judge Marovitz' letter of April 16, 1971, his Memorandum Opinion of February 5, 1971, the Transcript of Proceedings before him on February 5, March 2, and April 14, 1971, and the respective briefs of the parties to the litigation. Any questions should be directed to Mr. Griffith L. Carwood at the Board at Code 147-7413 or Mr. Charles C. Moore of the Federal Trade Commission at Code 13-23728.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon
Deputy Secretary

Enclosures

Item No. 5
6/10/71

For immediate release

June 15, 1971

The Board of Governors of the Federal Reserve System announced today an additional amendment to its bank holding company regulation outlining the type of data processing activities permissible for bank holding companies under the 1970 amendments to the Bank Holding Company Act.

The amendment, effective July 1, adds an eighth activity to the list announced by the Board last month. On May 27, the Board listed seven activities that it found to be closely related to banking, or managing or controlling banks, and thus permissible for bank holding companies subject to Board approval in individual cases.

Under the amendment announced today, the following activity is added to that list:

"(1) providing bookkeeping or data processing services for the internal operations of the holding company and its subsidiaries and (2) storing and processing other banking, financial, or related economic data, such as performing payroll, accounts receivable or payable, or billing services."

Data processing was among the 10 activities proposed by the Board on January 25 when it announced plans to amend its Bank Holding Company Regulation Y as a first step toward implementing the 1970 amendments to the Act. A hearing was held before members of the Board on the data processing proposal on April 16.

After considering the hearing record and the written comments received since January, the Board shifted its approach to this activity

from the types of customers for whom data processing services are performed to the kinds of data being processed. Under the amendment, bank holding companies will be permitted--subject to Board approval in individual cases--to process banking, financial, or related economic data for any type of customer.

The original proposal would have permitted a bank holding company to acquire a subsidiary to provide "bookkeeping or data processing services for (1) the holding company and its subsidiaries, (2) other financial institutions, or (3) others, Provided, that the value of services performed by the company for such persons was not a principal portion of the total value of all such services performed."

Two other proposed activities listed by the Board last January--both relating to insurance activities--are still under consideration.

A copy of the data processing amendment, together with an interpretation relating to this activity, is attached.

TITLE 12--BANKS AND BANKING

CHAPTER II--FEDERAL RESERVE SYSTEM

SUBCHAPTER A--BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. Y]

PART 222--BANK HOLDING COMPANIES

Nonbanking Activities of Bank Holding Companies

By notice of proposed rule making published in the Federal Register on January 29, 1971 (36 F.R. 1430), the Board of Governors proposed to implement its regulatory authority under section 4(c)(8) of the Bank Holding Company Act to permit holding companies to engage directly or through a subsidiary in "providing bookkeeping or data processing services for (i) the holding company and its subsidiaries, (ii) other financial institutions or (iii) others, Provided, That the value of services performed by the company for such persons is not a principal portion of the total value of all such services performed".

A hearing was held before members of the Board on April 16, 1971, on the question of the extent to which data processing services are "so closely related to banking or managing or controlling banks as to be a proper incident thereto" within the meaning of section 4(c)(8) of the Act. The notice of hearing set forth several alternatives to the proposal announced in January that had been suggested in written comments on the proposal for consideration by the Board in describing data processing services that are closely related to banking (36 F.R. 5622).

-2-

Following consideration of the comments received and the record of the hearing, the Board has abandoned the quantitative approach of its proposal in favor of a qualitative description of services the Board has determined are closely related to banking. Accordingly, it has amended § 222.4(a) by changing the period at the end thereof to a semicolon and adding subparagraph (8) as set forth below, effective July 1, 1971. To clarify the Board's views on this matter, it has added a paragraph to § 222.123, its recently adopted interpretation on activities closely related to banking. That paragraph is also set forth below:

§ 222.4 Nonbanking activities.

(a) Activities closely related to banking or managing or controlling banks. * * * The following activities have been determined by the Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto:

* * *

(8) (i) providing bookkeeping or data processing services for the internal operations of the holding company and its subsidiaries and (ii) storing and processing other banking, financial, or related economic data, such as performing payroll, accounts receivable or payable, or billing services.

* * * * *

§ 222.123 Activities closely related to banking.

* * * * *

(g) Data processing. The authority of holding companies under § 222.4(a) to engage in data processing activities is intended to permit holding companies to process, by means of a computer or otherwise, data

-3-

for others of the kinds banks have processed, by one means or another, in conducting their internal operations and accommodating their customers. It is not intended to permit holding companies to engage in automated data processing activities by developing programs either upon their own initiative or upon request, unless the data involved are financially oriented. The Board regards as incidental activities necessary to carry on the permissible activities in this area the following: (i) making excess computer time available to anyone so long as the only involvement by the holding company system is furnishing the facility and necessary operating personnel; (ii) selling a byproduct of the development of a program for a permissible data processing activity; and (iii) furnishing any data processing service upon request of a customer if such data processing service is not otherwise reasonably available in the relevant market area.

Effective date. July 1, 1971.

By order of the Board of Governors, June 10, 1971.

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon
Deputy Secretary

[SEAL]



Item No. 6
6/10/71

For release in morning papers
Friday, June 18, 1971

June 17, 1971

The Board of Governors of the Federal Reserve System today issued a policy statement calling for basic changes in the nation's system for handling money payments. These are, essentially, transitional steps toward replacing the use of checks with electronic transfer of funds.

The Board's Statement was directed to the Presidents of the 12 Federal Reserve Banks. It said that modernization of the nation's means of making financial transactions through the banking system "is becoming a matter of urgency."

The Board's sense of urgency was based upon estimates that check volume will at least double in the present decade. Some 62 million checks a day--about 22 billion a year--are written in the United States, setting in motion the transfer of more than \$16 trillion a year at the present time. In 1970, the Federal Reserve System cleared approximately 8 billion checks, transferring just over \$3 trillion from one account to another.

An average check passing through the clearing process is handled 10 times under present procedures. Despite the progress to date in mechanization and automation, increases in productivity are limited by the fact that the processing of checks continues to require a substantial amount of hand labor. This, together with mounting check volumes, presents banks with a problem of constantly rising costs for

their check handling operations. The Board's Policy Statement addresses itself to this mounting problem.

The Board's Policy Statement placed "high priority" upon providing the public with faster, more convenient and more dependable check clearing services, by increasing the speed and efficiency of check handling. In part, the Board's plans called for this to be accomplished through establishment of new regional clearing centers throughout the country.

The Board asked for action "to achieve as soon as possible an accelerated flow of funds along more optimal routing patterns" across the nation, in two initial ways:

1. Structural changes in handling and settlement of checks:

This would involve two alterations in the existing money payments system. First, zones of same-day settlement -- in immediately available money -- now operating in cities with Reserve Bank offices, would be expanded geographically. Second, new regional centers would be established, wherever warranted, for rapid check clearance in immediately available funds.

In both cases, the Board has in mind clearing areas as large as permitted by reliable arrangements for overnight presentation and settlement of items.

2. Operational changes:

These would be aimed at reducing dependence upon checks by encouraging banks and their customers to make greater use of the expanded capabilities of the Federal Reserve System's communications network.

Inducements to begin replacement of money transfers by check with transfers via wire would be offered by (1) removing charges and other restrictions upon the use of the Federal Reserve's wire network by member banks for transfers of \$1,000 or more for their customers, (2) increasing the number of hours the network is open for business daily, and (3) expanding facilities at Reserve offices, where justified by traffic potentials, to equip them for high speed tape transmission and computer-to-computer communications.

This would permit linkups, chiefly of commercial bank computers through the use of Federal Reserve facilities, allowing virtually instantaneous payment, without charge for the wire service, from a commercial bank in one part of the nation to a commercial bank in any other part, where both banks are Federal Reserve members and have computerized accounting of their customers' deposit balances.

With respect to timing, the Policy Statement said:

"The first objective should be expansion of the geographic area of existing immediate payment zones. This should be accomplished as soon as necessary arrangements can be made. Meantime, studies looking to the establishment of new clearing centers, wherever warranted, should be undertaken promptly by each Federal Reserve Bank, and submitted to the Board for review. Expansion of facilities at Federal Reserve offices for increased access to the Reserve System's wire network should be concluded at the earliest practicable time..."

The Board's Policy Statement was prepared in collaboration with the Federal Reserve System Steering Committee on Improving the

Payments Mechanism, headed by Reserve Board Governor George W. Mitchell. Other members are Governors Sherman J. Maisel and William W. Sherrill, Reserve Bank Presidents George H. Clay of Kansas City, Aubrey N. Heflin of Richmond, and Eliot J. Swan of San Francisco, and the First Vice Presidents of the Chicago and the New York Reserve Banks, Ernest T. Baughman and William F. Treiber. The Steering Committee was assisted by the Committee and Subcommittee on Collections of the Conference of First Vice Presidents of the Reserve Banks. Preparation of the statement involved extensive consultation among Reserve Banks and with commercial banks.

The Policy Statement confirmed the Federal Reserve System's commitment to a nationwide direct, fast and economical system for the transfer of funds and settlement of balances. The immediate aim is a reduction, across the nation, of the volume of items now being handled, speeding settlement by minimizing handling of checks, and reduction of commercial bank and Federal Reserve float resulting from delays in settlements.

Expansion of areas of fast clearing and settlement in immediately available funds is appropriate, in the Board's opinion, due to increasing urbanization and improvement of highway systems surrounding major cities, and the growing utilization, even in small banks, of centralized electronic accounting for demand deposits.

During the past year zones of immediate payment surrounding the Kansas City, the Minneapolis and the Denver Federal Reserve offices

have been expanded. The first -- experimental -- new regional clearing center was established for the Washington-Baltimore area, and is now in its second year of successful operation. The second such regional clearing center will become operational in Miami, Florida, this year.

Looking to the future, the Reserve System has three projects in being for further improvement of the payments mechanism:

1. Construction of a payments mechanism simulation model for the System, to be used both to understand better the present payments system and to indicate in what ways it can and should be improved.

2. An in-depth study of exactly how payments are effected in Florida and Georgia, being done by the Georgia Institute of Technology for the Federal Reserve Bank of Atlanta.

3. The cooperative participation, in California, of the Federal Reserve Bank of San Francisco and its Branch at Los Angeles with a Special Committee on Paperless Entry (SCOPE) through which commercial bank groups are attempting to reduce check volume by substituting electronic means of transferring money.

Meantime, the Reserve System's wire network is being both expanded and converted to higher speed operation. It includes a communications center at Culpeper, Virginia linking the Board and all Reserve offices, and is capable of extension to commercial banks.

A copy of the Board's Policy Statement is attached.

STATEMENT OF POLICY ON
THE PAYMENTS MECHANISM

Increasing the speed and efficiency with which the rapidly mounting volume of checks is handled is becoming a matter of urgency. Until electronic facilities begin to replace check transfer in substantial volume, the present system is vulnerable to serious transportation delays and manpower shortages. Structural changes in the present check clearing system can effect significant savings in manpower and unnecessary handling of checks. These changes will result in faster, more convenient, and more economical banking services for the public. They will reduce the cost of operations. The Federal Reserve Board therefore states as a matter of policy that it places high priority upon efforts by the Federal Reserve System to improve the nation's means of making payments, initially along the following lines:

1. Extending present clearing arrangements, in cities with Federal Reserve offices, into larger zones of immediate payment, consistent with transportation possibilities, check volumes, and the location of check processing centers.
2. Establishing other regional clearing facilities, in which settlements are made in immediately available funds, located wherever warranted by the need for more expeditious and economical check handling, or other operating and financial conditions.

-2-

3. (a) Encouraging banks and their customers to make greater use of the expanded capabilities of the Federal Reserve wire transfer system.

(b) Removing restrictions on third party transfers of demand deposits, and extending the time period in which the wire transfer system can be used.

(c) Expanding facilities at Reserve Bank offices, where justified by traffic potentials, to include high speed tape transmission, and computer-to-computer communications.

Plans for making these basic changes in the present money transfer system should be pursued actively, to achieve as soon as possible an accelerated flow of funds along more optimal routing patterns. These initiatives are generally intended to supplement those efficient direct check exchange programs that are now in existence.

The first objective should be expansion of the geographic area of existing immediate payment zones. This should be accomplished as soon as necessary arrangements can be made. Meantime, studies looking to the establishment of new clearing centers, wherever warranted, should be undertaken promptly by each Federal Reserve Bank, and submitted to the Board for review. Expansion of facilities at Federal Reserve offices for increased access to the Reserve System's wire network should be concluded at the earliest practicable time, generally during the next 12 to 18 months.

-0-

June 1971

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

S-2165

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 11, 1971

The accompanying Policy Statement on the Payments Mechanism reflects the Board's sense of urgency in moving toward a more modern system for making financial payments throughout the United States.

The Board regards the changes suggested in its Policy Statement as initial steps in a major revitalization of the nation's facilities for making financial transactions through the banking system, with two basic aims:

1. Exploitation of currently available communications technology, to increase the speed and efficiency, and lower the costs, of financial transactions made through the banking system.
2. To increase the convenience to the public of making payments through the banking system while keeping the costs of doing so as reasonable as possible with check processing technology, despite the fact that check volume--unless substituted in large part by wire transfer--will at least double in the current decade.

The changes suggested build upon the extensive substitution that has already taken place in the Federal Reserve System, and in banks, of electronic and mechanical means for clerical means of handling payments data.

The changes also build upon other improvements already in being in the payments mechanism, chiefly, direct check exchange, and experimental widening of areas of settlement with immediately available funds.

The Board's Policy Statement was prepared in collaboration with the System Steering Committee on Improving the Payments Mechanism,

made up of Governor Mitchell, Chairman, Governor Maisel and Governor Sherrill, together with Reserve Bank Presidents Clay, Heflin, and Swan, and First Vice Presidents Baughman and Treiber, as well as the Committee and Subcommittee on Collections of the Conference of First Vice Presidents.

The Board believes that rapid implementation of the initial steps cited in the Policy Statement will result in eventual savings in public and private operating costs, by reducing the amount of clerical work involved in settlements, chiefly through reductions in check handling due to reduced need for sorting, packaging and transportation of checks and other paper items. Elimination of bank and System float through these changes would result in further savings, and greater equity among banks.

Where zones of immediate payment now exist, in cities with Federal Reserve offices, the Board anticipates that the geographic expansion suggested in Point 1 can be accomplished at an early time. It is envisaged that these zones would be as large as permitted by reliable physical arrangements for overnight presentation and settlement of items.

Studies leading to the establishment of new clearing centers, for settlement in immediately available funds on a regional basis, as in Point 2, should be undertaken promptly, where not already under way. The Board does not anticipate that this should involve extensive delays, and it looks forward to the establishment in the near future of the optimum justifiable number of new regional clearing arrangements. It is generally expected that procedures governing participation in regional clearing facilities will be conducted in such a way that where possible due precedence is given to member banks.

Point 3 in the Policy Statement is aimed at taking fuller advantage, in speeding money transfers, of the Federal Reserve System's existing wire network, and improvements in it that are coming into being. As 3(c) indicates, this requires Reserve Bank offices to add to their present capabilities where indicated by potentials for their use. Adjustments in operating hours, and other practices, should be made with a view to encouraging maximum utilization of the capacity of the Reserve System's wire network, on an equitable basis.

A press release and the policy statement will be issued to the Press on Wednesday afternoon, June 16, for use in morning papers of Thursday, June 17. The press release will be sent to each Reserve Bank by wire early next week. Please guard against premature release.

Very truly yours,



Robert C. Holland
Secretary

Attachment
(Banks and branches)

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS AND VICE PRESIDENTS IN CHARGE OF BRANCHES