

Minutes for January 10, 1958

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, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	<u>x</u> <u>MM</u>	_____
Gov. Szymczak	<u>x</u> <u>MS</u>	_____
Gov. Vardaman <u>1/</u>	_____	<u>x</u> _____
Gov. Mills	<u>x</u> <u>MS</u>	_____
Gov. Robertson	<u>x</u> <u>R</u>	_____
Gov. Balderston	<u>x</u> <u>CCB</u>	_____
Gov. Shepardson	<u>MS</u>	<u>x</u> <u>MS</u>

1/ In accordance with Governor Shepardson's memorandum of March 8, 1957, these minutes are not being sent to Governor Vardaman for initial.

Minutes of the Board of Governors of the Federal Reserve System
on Friday, January 10, 1958. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Szymczak 1/
Mr. Mills
Mr. Robertson

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Director, Division of Research and
Statistics
Mr. Hackley, General Counsel
Mr. Masters, Director, Division of Examinations
Mr. Shay, Legislative Counsel
Mr. Farrell, Assistant Director, Division of
Bank Operations
Mr. Noyes, Adviser, Division of Research and
Statistics
Mr. Robinson, Adviser, Division of Research and
Statistics
Mr. Sammons, Associate Adviser, Division of
International Finance
Mr. Hostrup, Assistant Director, Division of
Examinations
Mr. Hooff, Assistant Counsel

Professor Emanuel T. Weiler of Purdue University, who directed the 1957 Summer Research Training Institute which was held at the Federal Reserve Building under the joint sponsorship of the Board and the Social Science Research Council, also was present.

Statement by Professor Weiler. At the request of the Board, Professor Weiler summarized the program of the 1957 Summer Research Training Institute, which was attended by a group of 16 educators, and suggested certain changes which he felt could be made to advantage if such a project should be undertaken again. From the point of view of

1/ Entered meeting at point indicated in minutes.

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the participants, he considered that the course had been an unqualified success, a judgment borne out by the letters of appraisal subsequently received from those in the group. From the point of view of the Board, he felt that such an undertaking had a very definite value from the public relations standpoint because the participants, a number of whom undoubtedly would be influential in the academic field at some time in the future, had now come to appreciate better the role of monetary policy and the caliber of the work performed by the Board's organization.

In response to questions, Mr. Weiler recommended the sponsorship of additional programs of this character but indicated that he was undecided whether joint sponsorship of the undertaking by an outside organization such as the Social Science Research Council was of particular benefit. He said that over the years he had detected no tendency on the part of academic people to suspect the Federal Reserve of attempting to influence their opinions through sponsoring seminars and similar programs.

In this connection, Mr. Robinson brought out that the contribution of the Social Science Research Council to the expenses of the participants had been in the neighborhood of \$16,000. It was his view that the participation of an agency such as the Council was particularly useful in the selection of applicants.

With regard to the optimum number of participants, Mr. Weiler indicated that eight or nine of those in the 1957 group were definitely of higher caliber than the others. However, if there were enough attractive applicants for another such program, he felt that a group

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as large as 15 could be handled effectively. In making this statement, he recognized that it would not be feasible to conduct a course of this kind too frequently, certainly not oftener than once each year.

The discussion concluded with comments by members of the Board to the effect that consideration should be given to arranging additional courses such as the one offered in 1957.

Messrs. Weiler and Robinson then withdrew from the meeting.

Items circulated to the Board. The following items, which had been circulated to the members of the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to State Bank of Pearl River, Pearl River, New York, approving the establishment of a branch in Blauvelt, New York. (For transmittal through the Federal Reserve Bank of New York)	1
Letters to the Comptroller of the Currency and to the First National Bank in Yonkers, Yonkers, New York, regarding the applicability of section 22(g) of the Federal Reserve Act and the Board's Regulation O to loans made to directors who serve on the discount committee and perform certain other functions. (With copies to the Federal Reserve Bank of New York)	2, 3
Letter to Camden Trust Company, Camden, New Jersey, approving the establishment of a second branch in Blackwood, New Jersey, and also an additional investment in bank premises. (For transmittal through the Federal Reserve Bank of Philadelphia)	4

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Item No.

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Telegram to the Federal Reserve Agent at Minneapolis authorizing the issuance of a limited voting permit to Montana Shares, Incorporated, Havre, Montana, entitling it to vote the stock which it owns or controls of The Miners National Bank of Butte, Butte, Montana, and First State Bank of Chinook, Chinook, Montana.

6

Letter to Greenfield State Bank, Greenfield, California, approving the establishment of a branch in the bank's existing quarters in Greenfield simultaneously with removal of its head office operations from that location to Bakersfield, California. (For transmittal through the Federal Reserve Bank of San Francisco)

7

Letter to the Federal Reserve Bank of San Francisco approving the appointment of Mr. Walter A. Kind as Federal Reserve Agent's Representative at the Seattle Branch.

8

Telegram to the Federal Reserve Bank of New York approving a revised program for alterations to the annex building.

9

Telegram to the Federal Reserve Bank of Kansas City advising that the Board authorization of April 27, 1956, for the purchase of property, and leasehold thereon, adjacent to the Oklahoma City Branch building still stands, with a modification in the authorized total price.

10

Letter to the Federal Reserve Banks inviting them to submit the names of persons who might be selected to attend the 1958 course of the Center for Latin American Monetary Studies. (With the understanding that a similar invitation would be given to the heads of the divisions of the Board)

11

Letter to the Inter-American Council of Commerce and Production declining an invitation to the Board to assume membership on the Council.

With reference to the application of the State Bank of Pearl River to establish a branch in Blauvelt, New York, it was noted in approving the application (Item No. 1), that Governor Robertson had had a discussion of the matter with Deputy Comptroller of the Currency

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Jennings, who concurred, although reluctantly, that the only solution was to approve this application and also one of those which had been filed by three national banks.

In reviewing the matter, Governor Robertson pointed out that the three national banks had applied for branches in Orangeburg, New York, which is only about 1-1/4 miles from Blauvelt, and that the original filing dates of two of the applications preceded considerably the date on which the application of the State Bank of Pearl River was filed. From personal observation of the area, he doubted somewhat the need for any branch banking office at this time, and even more the necessity for two branches in the vicinity. However, the New York banking authorities, even though aware of the fact that the original applications filed by two of the national banks had been denied, approved the State bank's application and the Federal Reserve Bank of New York had expressed the view that the establishment of two branches in the area would not be out of order. Therefore, even though application of the interagency understanding which gives preference to applications filed first would seem to mean that the applications submitted by two of the national banks should have priority, the best compromise solution at this point appeared to be for the Board to approve a branch for the State Bank of Pearl River and for the Comptroller of the Currency to approve the application of one of the national banks.

Discount rates. Unanimous approval was given to telegrams to the following Federal Reserve Banks approving the establishment without

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change by those Banks on the dates indicated of the rates on discounts and advances in their existing schedules:

San Francisco	January 8
New York	January 9
Cleveland	January 9
Richmond	January 9
Atlanta	January 9
Chicago	January 9
St. Louis	January 9
Minneapolis	January 9
Kansas City	January 9
Dallas	January 9

Request from House Committee on Government Operations (Item No. 12).

Pursuant to the understanding at the meeting on January 6, 1958, there had been distributed to the members of the Board a revised draft of letter to Chairman Dawson of the House Committee on Government Operations furnishing certain requested information on the activities of the Federal Reserve System in the field of research and development.

Following a brief discussion, the letter was approved unanimously, subject to certain minor editorial changes, with the understanding that copies would be sent to the Federal Reserve Banks for their information. A copy of the letter in the form sent to Chairman Dawson is attached as Item No. 12.

Messrs. Shay, Farrell, and Sammons then withdrew from the meeting.

Application of the Marine Midland Corporation under section 4(a) of the Bank Holding Company Act (Item No. 13). There had been distributed to the members of the Board copies of a memorandum from the Division of

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Examinations dated January 6, 1958, discussing the request of Marine Midland Corporation, Buffalo, New York, for an extension for one year from May 9, 1958, of the permissible period for retention of indirect control through a subsidiary bank of Liberty Building Corporation, also of Buffalo. This application had been filed pursuant to section 4(a) of the Bank Holding Company Act and it was recommended by the Division of Examinations that the request be granted. The memorandum noted the possibility that Marine Midland's indirect ownership of these shares might not be subject to the divestment requirements of section 4(a)(2) on the ground that Liberty Building Corporation was a company engaged in liquidating assets within the meaning of the last clause of section 4(c)(1). However, since discussion with the Legal Division had indicated that the applicability of section 4(c)(1) to this situation might constitute a complex legal question, it was deemed advisable not to attempt at this time to reach a decision on that point.

In a discussion of the matter, Governor Balderston referred to the possible applicability of the last clause of section 4(c)(1) to this situation, and Governor Robertson commented that this would involve a study of difficult legal questions. Inasmuch as the situation was not clear, he considered it preferable to grant the requested extension of time and thus avoid the necessity for attempting to reach a decision on a very close question.

Accordingly, unanimous approval was given to the letter to Marine Midland Corporation of which a copy is attached hereto as Item No. 13, for transmittal through the Federal Reserve Bank of New York.

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Items distributed to the Board (Items 14, 15, and 16). There had been sent to the members of the Board copies of (1) a joint memorandum from the Division of Examinations and the Legal Division dated January 8, 1958, relating to the application of Wisconsin Bankshares Corporation, Milwaukee Wisconsin, for an extension of time within which to complete the acquisition of shares of the proposed Southgate National Bank of Milwaukee; (2) a memorandum from the Division of Examinations dated January 8, 1958, concerning the request of City Commerce Corporation, Anchorage, Alaska, for a limited voting permit covering its stock of the City National Bank of Anchorage; and (3) a memorandum from the Division of Examinations dated January 9, 1958, concerning the request of Oklahoma Industrial Finance Corporation, Oklahoma City, Oklahoma, for a limited voting permit covering its stock of The Farmers National Bank of Elk City, Elk City, Oklahoma.

Pursuant to the recommendations contained in these memoranda, unanimous approval was given to (1) an order in the form attached as Item No. 14 granting the request of Wisconsin Bankshares Corporation, with the understanding that the order would be published in the Federal Register and that copies would be sent to the appropriate parties; (2) a telegram to the Federal Reserve Agent at San Francisco in the form attached as Item No. 15 authorizing the issuance of the requested limited voting permit to City Commerce Corporation; and (3) a telegram to the Federal Reserve Agent at Kansas City in the form attached as Item No. 16 authorizing the issuance of the requested limited voting permit to Oklahoma Industrial Finance Corporation.

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Application of H. Kempner, Galveston, Texas, for section 301 determination (Item No. 17). H. Kempner, of Galveston, Texas, had requested through the Federal Reserve Bank of Dallas a determination by the Board of its status as a holding company affiliate. For reasons developed in memoranda from the Division of Examinations and the Legal Division dated January 7 and January 9, 1958, respectively, copies of which had been distributed to the members of the Board, it was recommended that the Board determine Kempner to be an organization not engaged as a business in holding the stock of, or managing or controlling, banks. The case, however, was regarded as a close one because, in addition to holding a majority of the shares of The United States National Bank of Galveston, Kempner also held a 24.60 per cent interest in a second bank, a 22 per cent interest in a third bank, and a nominal interest in another. In favor of holding this to be a "one-bank" case and granting the section 301 determination, it was brought out that Kempner apparently did not manage or control the policies of banks other than the one in Galveston, that its principal business was that of a cotton merchant and exporter, that its investments in bank stock represented only about 4 per cent of its total assets, and that in 1956 its income from bank shareholdings represented only about 5 per cent of its gross income.

Governor Mills stated that he would be inclined to accept the recommendation of the Division of Examinations, although realizing that this was a very close case, since granting a section 301 determination

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would appear to be in line with decisions made by the Board in relatively comparable situations and because he saw no real reason for deciding otherwise. This was the kind of problem, he suggested, which seemed to deserve consideration by the Congress when it studied possible changes in the current bank holding company legislation.

Governor Robertson referred to the extent of Kempner's holdings of bank shares, including its 24.60 per cent interest in a bank in Alvin, Texas, in addition to majority control of the Galveston institution, and said that if it were not for the Board's current policy pertaining to "one-bank" cases - a policy, incidentally, which he had opposed - he thought that this case would present a substantial question. However, it appeared to him that the situation fell squarely within the scope of the present policy and consequently he would go along with granting the requested determination on that basis.

Accordingly, unanimous approval was given to the letter to H. Kempner, Galveston, Texas, of which a copy is attached as Item No. 17, for transmittal through the Federal Reserve Bank of Dallas.

Messrs. Masters, Hostrup, and Hooff then withdrew from the meeting and Mr. Miller, Chief, Government Finance Section, Division of Research and Statistics, entered the room.

Request of Bank of England for information regarding certain Federal Reserve activities (Item No. 18). In a letter addressed to Mr. Riefler under date of December 20, 1957, Mr. L. K. O'Brien, Chief Cashier of the Bank of England, requested certain information about

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Federal Reserve activities relating to Treasury debt operations. The letter indicated that the Radcliffe Committee, currently engaged in a study of the monetary and financial structure in England, had asked the Bank of England to explain in some detail the way in which it sought to facilitate Government stock operations, that the Committee also had inquired how other countries handled such problems, and that it had asked specifically how the United States authorities managed their conversion and new issue operations. In his letter, Mr. O'Brien also pointed out that any answer given to the Committee would in due course be published. A draft of reply for Mr. Riefler's signature as Secretary of the Federal Open Market Committee and an accompanying memorandum which might be sent in response to Mr. O'Brien's request had been distributed to the members of the Board.

Chairman Martin stated that he had suggested distribution of the proposed response in view of the indication that the material would be made public in the report of the Radcliffe Committee, following which the members of the Board expressed the view that there would be no objection to furnishing information of a factual nature such as contained in the memorandum. In this connection, it was noted that the memorandum had been cleared with the Federal Reserve Bank of New York and the Treasury Department.

Accordingly, it was understood that the letter and memorandum would be transmitted to Mr. O'Brien. Copies are attached hereto under Item No. 18.

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Additional items circulated to the Board (Items 19 and 20).

The following additional items, which had been circulated to the members of the Board and copies of which are attached hereto under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to the Federal Reserve Bank of Chicago approving the payment of salary to Mr. W. G. Rickel as Assistant Cashier assigned to the Detroit Branch.	19
Letter to the Federal Reserve Bank of Kansas City approving the payment of salary to Mr. George H. Clay as Vice President, General Counsel and Secretary of the Bank.	20

Views expressed at directors' meetings. Governor Balderston referred to the Board's letter of March 16, 1956, to the Chairmen of the Federal Reserve Banks expressing its interest in receiving summaries of views stated at meetings of the boards of directors of the respective Banks concerning economic conditions. He pointed out that there had never been full participation of the Reserve Banks in response to this letter and that at the present time only two of the Banks continued to submit information of this kind. The question which he raised, therefore, was whether the material was of sufficient interest to the Board to warrant taking steps in the direction of encouraging the Reserve Banks to follow the practice.

This question led to comments by Chairman Martin concerning a recent informal conversation with the Chairman of a Federal Reserve Bank

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which indicated some feeling on the latter's part that a practice of this kind might tend to inhibit free expression of opinions at directors' meetings because some of the views represented little more than personal reactions to business developments of the moment and the directors might not like to have such expressions formalized.

In further discussion, the suggestion was made that the frequency of the Federal Open Market Committee meetings afforded an opportunity for the Presidents of the Federal Reserve Banks to summarize developments in the respective districts and that these reports apparently took into account observations at the meetings of the boards of directors. At the same time, there appeared to be some feeling among the members of the Board that a certain amount of benefit could be derived from receiving directors' comments on a regular basis. Accordingly, several possible courses were mentioned which the Board might follow if it desired to stimulate the flow of such comments, including periodic acknowledgment of the incoming reports and a procedure whereby remarks would not be attributed to individual directors.

Following further discussion of the matter, during which Governor Szymczak joined the meeting, Chairman Martin suggested that in the light of the questions which had been raised it might be desirable to have a discussion of the subject at the next joint meeting of the Board and the Conference of Presidents of the Federal Reserve Banks.

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There was unanimous agreement with Chairman Martin's suggestion and it was understood that steps would be taken to have this matter included on the agenda for the next joint meeting.

The meeting then adjourned.

Secretary's Notes: It having been ascertained, pursuant to action taken by the Board on January 8, 1958, that Mr. William R. Mathews would accept appointment, if tendered, as a director of the El Paso Branch, Federal Reserve Bank of Dallas, for the unexpired portion of the term ending December 31, 1960, and that Mr. Selden Sheffield would accept appointment, if tendered, as a director of the Birmingham Branch, Federal Reserve Bank of Atlanta, likewise for the unexpired portion of the term ending December 31, 1960, telegrams notifying Messrs. Mathews and Sheffield of their appointments were sent today.

Governor Mills, acting in the absence of Governor Shepardson, today approved on behalf of the Board memoranda from appropriate individuals concerned recommending certain actions affecting the Board's staff, as follows:

Appointment

Paul Wolf Kuznets as Economist, Division of Research and Statistics, with basic annual salary at the rate of \$5,440, effective the date he assumes his duties.

Salary increase

Mary Jane Harrington, Economist, Division of Research and Statistics, from \$6,250 to \$6,390 per annum, effective January 12, 1958.

Acceptance of resignation

Clinton R. Dow, Jr., Assistant Federal Reserve Examiner, Division of Examinations, effective January 26, 1958.

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Governor Balderston, acting in the absence of Governor Shepardson, today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of New York approving the appointment of George M. Yeager as assistant examiner. A copy of the letter is attached as Item No. 21.

Letter to the Federal Reserve Bank of San Francisco approving the designation of 14 persons as special assistant examiners. A copy of the letter is attached as Item No. 22.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 1
1/10/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 10, 1958

Board of Directors,
State Bank of Pearl River,
Pearl River, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System approves the establishment of a branch by the State Bank of Pearl River, Pearl River, New York, on the southeast corner of the intersection of Moisen Road and Erie Street, in the unincorporated Village of Blauvelt, Town of Orangetown, New York, provided the branch is established within six months from the date of this letter and approval of the State authorities is in effect as of the date the branch is established.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 2
1/10/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 10, 1958



The Honorable
The Comptroller of the Currency,
Washington 25, D. C.

My dear Mr. Comptroller:

Enclosed are a copy of a letter dated August 16, 1957, from the First National Bank in Yonkers, Yonkers, New York, and a copy of the Board's reply of this date, involving in part the question as to whether directors of member banks who are members of the bank's discount committee are "executive officers" within the meaning of section 22(g) of the Federal Reserve Act and Regulation O of the Board of Governors. The question arises as a result of criticism by the national bank examiner of substantial loans made to each of three directors of the Yonkers bank. You will note that the Board considers that the term "executive officer" does not include a director who is a member of the executive or discount committee, unless he also is an officer of the bank.

However, the letter from the Yonkers bank raises another question, involving section 22(g) and Regulation O, which was not referred to specifically by your bank examiner. The three directors in question who serve on the executive committee perform certain other functions for the bank: one is "Chairman of the Examining Committee," one is "Director-in-Charge of the Safe Deposit Department," and one is "Secretary of the Board of Directors and Director-in-Charge of Real Estate." Each of these directors receives an annual salary for these latter services, but the Board has no information as to the exact duties they perform. The fact that they receive annual salaries suggests that their duties, functions and responsibilities are such as would ordinarily be performed by officers of the bank and not by the directors in their capacities as directors. If this is correct, and the services are such as involve participation in the operating management of the bank, then the directors could be executive officers even though they have no official titles.

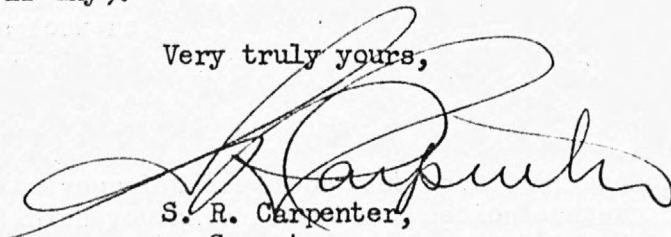
In view of the above it is necessary that the Board have as complete information as is possible regarding the duties of these directors when serving the bank in the capacities indicated. It would be appreciated if at the next examination of the bank you would secure for the Board's use all pertinent information bearing on this question, including the following: a description

The Comptroller of the Currency

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of the functions and responsibilities of the three directors; how much time each spends on these duties; the extent to which each has responsibility for the direction and supervision of bank personnel; and the extent to which other directors also have such special duties (indicating compensation therefor, if any).

Very truly yours,

A large, stylized handwritten signature in black ink, appearing to read 'S. R. Carpenter', is written over the typed name below.

S. R. Carpenter,
Secretary.

Enclosures

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 3
1/10/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 10, 1958



Mr. Joseph P. Finnegan,
Chairman of the Board,
First National Bank in Yonkers,
Yonkers, New York.

Dear Mr. Finnegan:

This refers to your letters of August 16, 1957, and of November 22, 1957, in which you have raised a question concerning the applicability of the provisions of section 22(g) of the Federal Reserve Act and Regulation O of the Board of Governors to loans made to directors of member banks who are acting at the time of the loan as members of the discount committee.

Section 22(g) was added by the Banking Act of 1933, and the legislative history of that Act indicates clearly that the term "executive officer" as used in that section was not intended by Congress to include a director of a member bank as such. The Board has followed this legislative intent in promulgating Regulation O and in its interpretation. Accordingly, the term "executive officer" does not include a director who may be a member of the executive or discount committee, unless, of course, he also is an officer of the bank.

Your letter, however, raises still another question, involving section 22(g) and Regulation O, which was not referred to specifically by the bank examiner. While your directors are not considered to be executive officers because of membership on the discount committee, they might be so considered because of their other services and duties which may involve participation in the operating management of the bank otherwise than in the capacity of directors. The Board's delay in replying to your inquiry, which it sincerely regrets, has been due primarily to the necessity for giving this particular question most careful consideration, and you will be promptly advised when a decision has been reached with respect to it.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 4
1/10/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 10, 1958



Board of Directors,
Camden Trust Company,
Camden, New Jersey.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors of the Federal Reserve System approves the establishment of a branch at the southwest corner of East Church Road and Pennsylvania Avenue, Blackwood, New Jersey, by Camden Trust Company, Camden, New Jersey, provided the branch is established within six months from the date of this letter.

The Board of Governors also approves, under the provisions of Section 24A of the Federal Reserve Act, the additional investment in banking premises of not to exceed \$75,000, to provide for the establishment of the branch.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

T E L E G R A M
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 5
1/10/58

January 10, 1958

PERRIN - MINNEAPOLIS

KECEA

- A. Montana Shares, Incorporated, Havre, Montana.
- B. The Miners National Bank of Butte, Butte, Montana.
First State Bank of Chinook, Chinook, Montana.
- C. None.
- D. At any time prior to April 1, 1958 (1) to elect directors of such banks at the annual meetings of shareholders, or any adjournments thereof, and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such banks, and (2) to authorize the appropriation of funds out of the current earnings of such banks to be set aside in accordance with rulings of the Bureau of Internal Revenue as a "Deferred Compensation Profit Sharing Plan" for the qualified employees of such banks.

(Signed) Merritt Sherman

SHERMAN

KECEA - The Board authorizes the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 6
1/10/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 10, 1958



Board of Directors,
Greenfield State Bank,
Greenfield, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors approves the establishment of a branch in the bank's existing quarters in Greenfield, California, by Greenfield State Bank, simultaneously with removal of its head office operations from that location to 1530 Truxton Avenue, Bakersfield, California, provided the branch is established by April 5, 1958.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 7
1/10/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 10, 1958

Mr. A. H. Brawner, Chairman,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Brawner:

In accordance with the request contained in your letter of December 24, 1957, the Board of Governors approves the appointment of Mr. Walter A. Kind as Federal Reserve Agent's Representative at the Seattle Branch, effective January 1, 1958, to succeed Mr. Francis K. Grimm.

This approval is given with the understanding that Mr. Kind will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of his duties, except that, during the absence or disability of the Federal Reserve Agent or a vacancy in that office, his responsibility will be to the Assistant Federal Reserve Agent and the Board of Governors.

When not engaged in the performance of his duties as Federal Reserve Agent's Representative Mr. Kind may, with the approval of the Federal Reserve Agent and the Vice President in charge of the Seattle Branch, perform such work for the Branch as will not be inconsistent with his duties as Federal Reserve Agent's Representative.

It will be appreciated if Mr. Kind is fully informed of the importance of his responsibilities as a member of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

It is noted from your letter that, upon the approval of the appointment of Mr. Kind by the Board of Governors, he will execute the usual oath of office which will be forwarded to the Board of Governors.

Your letter states that a large portion of the Federal Reserve Agent's cash at the Seattle Branch is under the seal of the Board examiners and the Head Office auditors and you outline a procedure for

Mr. Brawner

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retaining the Board's seal until the examiners make their next visit. The procedure outlined is agreeable to the Division of Examinations and your thoughtfulness in this regard is appreciated.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

TELEGRAM
LEASED WIRE SERVICEItem No. 8
1/10/58BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

January 10, 1958

Kimball - New York

Board approves the revised program for alterations to the annex building and will interpose no objection to the expenditure of approximately \$296,000 for the improvements as described in your letter of December 20, 1957.

(Signed) S. R. Carpenter

Carpenter

TELEGRAM
LEASED WIRE SERVICEItem No. 9
1/10/58BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

January 10, 1958

Leedy - Kansas City

Reurlet December 27, 1957, Board authorization of April 27, 1956 for purchase of property, and leasehold thereon, adjacent to Oklahoma City Branch building still stands. Board has no objection to your proceeding under that authorization with the understanding that, because of the \$25,000 reduction, in the price for the leasehold reported in your letter, the total price for the property and the leasehold will not exceed \$500,000 instead of the price of \$525,000 referred to in the April 27, 1956 telegram.

(Signed) S. R. Carpenter

CARPENTER.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 10
1/10/58

Z-4557 (On office
copies only)

90

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 13, 1958.

Dear Sir:

This is in further reference to the Chairman's letter of April 30, 1957, regarding possible participation of System personnel in the training courses given by the Center for Latin American Monetary Studies in Mexico City.

As you may know, Mr. Walter Sedwitz of the staff of the Federal Reserve Bank of New York participated in the 1957 sessions. On the basis of the attached summary of his report and other information available to the Board, it appears that participation in the courses given by the Center would be advantageous to the participant, to the System, and to the Center.

The Board has therefore approved in principle such participation on the part of qualified personnel of the System, and invites nominations for possible candidates for the 1958 program, which will be held from Monday, May 5 to Friday, August 29. Nominees should have a sufficient command of the Spanish language to be able to participate effectively in the program of the Center, which is conducted almost entirely in Spanish. They should, of course, also be in a position to profit from the courses involved, the general nature of which was outlined in the attachment to the Chairman's letter of April 30, 1957. The Board believes that the number of participants in any one year should not be more than two; if there should be more than two applicants, final selection would be made by the Board. It is understood, of course, that the salary and necessary travel and maintenance expenses of any candidate selected would be borne by the employing Bank, or by the Board if a member of the Board's staff is selected.

Nominations for the 1958 course should be submitted not later than January 31, 1958. Each one should be accompanied by a brief resume of the candidate's training and experience.

Very truly yours,

S. R. Carpenter,
Secretary.

Attachment

TO THE PRESIDENT OF ALL
FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 11
1/10/58

OFFICE OF THE CHAIRMAN

January 10, 1958

AIR MAIL

Mr. Carlos Ons Cotelo,
General Secretary,
Inter-American Council of
Commerce and Production,
Misiones 1400
Montevideo, Uruguay.

Dear Sir:

Thank you very much for your letter of December 19, 1957, inviting the Federal Reserve System to become a cooperating member of the Inter-American Council of Commerce and Production.

The Board of Governors has noted with interest the aims and purposes of your organization. However, it is not the policy of the Board to accept formal memberships of the kind indicated. For this reason, I regret to inform you that it will not be possible to take advantage of your kind invitation.

Sincerely yours,

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 12
1/10/58

OFFICE OF THE CHAIRMAN

January 10, 1958.

The Honorable William L. Dawson,
Chairman,
Committee on Government Operations,
1501 House Office Building,
Washington 25, D. C.

Dear Mr. Dawson:

This is in reply to your letter of November 27 in which you request certain information with respect to the Federal Reserve System's activities in the field of research and development.

The Board is pleased to supply you with any information on the System's research program that will be helpful to your Committee. As will be apparent from the following replies, however, it is difficult in some instances to relate the types of research activity in which the System is engaged to specific questions contained in your letter.

1. With a very few exceptions, the activities of the Federal Reserve System which come within the scope of this inquiry are in the field of economic research. For the purposes of this reply we will consider as "basic research" projects and efforts which are directed toward a better understanding of the nature and functioning of the economic system, and particularly the financial system. "Applied research" will include the collection of statistical and other economic intelligence bearing on current developments and the interpretive application of such information, within the framework of generally tested theory, to the formulation of credit and monetary policy. In this connection you may be interested in the attached copy of an address which I delivered before a meeting of the Life Insurance Association on December 11, entitled "Basic Research and Financial Processes" (Exhibit A).

With two exceptions, which will be particularly noted, our activities do not comprehend what would ordinarily be meant by the terms "development" and "applications engineering."

2. The Federal Reserve System is made up of the offices of the Board of Governors in Washington, the twelve Federal Reserve Banks, and twenty-four branches. Among the staff

The Honorable William L. Dawson -2-

divisions which support and advise the Board of Governors in Washington are a Division of Research and Statistics, a Division of International Finance, and a Division of Bank Operations, all of which engage in research activity to a greater or lesser extent. All of these Divisions are concerned with both basic and applied research, but the work of the Division of Bank Operations, which involves primarily the collection and processing of statistical data on the banking system, is predominantly applied research. However, the members of the staff of this Division participate from time to time in projects that may properly be described as basic research.

Each of the twelve Federal Reserve Banks has a Research Department, which is generally headed by a vice president in charge of research. This group is directly responsible to the president and directors of the Federal Reserve Bank. However, its services are also available to the Board and, in fact, the research activity in the System as a whole is coordinated through the Board's Division of Research and Statistics and a System Research Advisory Committee. Little or no research activity is carried out at Federal Reserve Bank branches.

Copies of organization charts showing the organization of the Board's Divisions of Research and Statistics, International Finance, and Bank Operations are attached, together with an organization chart of a typical Federal Reserve Bank research department, and a diagram showing the principal research committees in the System (Exhibit B).

3. The Federal Reserve System, primarily, although not exclusively, through the Board's offices in Washington, maintains close relationships with almost all of the Federal agencies concerned with economic research. Most of these agencies utilize all or part of the data collected by the Federal Reserve System and the System, in turn, utilizes economic intelligence which they collect. Representatives of the System serve on various interagency committees, particularly those concerned with problems related to the collection and analysis of statistical data which are established from time to time by the Bureau of the Budget and other departments and agencies of the Government. These arrangements are frequently informal in character and can best be described as representing close day to day working relationships. Among the departments and agencies with which the

Board's staff works most closely are the Council of Economic Advisers, Bureau of the Budget, Department of Commerce (especially the Bureau of the Census and the Office of Business Economics), the Housing and Home Finance Agency, Department of Agriculture, Department of Labor (especially the Bureau of Labor Statistics), Department of State (especially the Bureau of Economic Affairs), the Department of the Treasury, and the Federal Deposit Insurance Corporation.

No "influence, direction or control" is exerted over the Federal Reserve System's activities by these relationships in the sense we understand these terms to be used in your letter. Of course, our activities are importantly influenced by the work of other Government agencies, in that we learn from their work and we advise and otherwise cooperate, where requested, in their efforts. Pains are taken not to duplicate work that is being carried out elsewhere. But there is no direction or control of the Federal Reserve System's research activities, except that which is exercised by the Bureau of the Budget with respect to the collection of statistical data under the authority of the Federal Reports Act of 1942.

4. There are a wide variety of contacts between the Federal Reserve System and nongovernmental groups and individuals which arise in the normal course of our research activities. For example, in assembling the Federal Reserve Board's Index of Industrial Production, we draw upon many nongovernmental as well as governmental sources. The System also collects, on a voluntary basis, consumer credit and department store statistics and has continuing contact with individuals and groups in these specialized areas related to the maintenance of these statistical series. We naturally have a wide variety of continuing relationships with commercial banks stemming from our research activities as well as our supervisory responsibilities. The collection and analysis of economic intelligence are frequently discussed with the Federal Advisory Council, representatives of the American Bankers Association, the various State bank associations, and subcommittees of these and other organizations. Our research personnel also discusses matters of mutual interest with technicians in private corporations and financial institutions with similar interests.

From time to time in connection with specific basic research undertakings or applied research efforts, the System

The Honorable William L. Dawson

-4-

has employed consultants--generally distinguished academic scholars. On occasion we have also entered into contracts with private organizations for the performance of specific research services. The longest term relationship of this kind is with the Survey Research Center of the University of Michigan which has conducted a survey of consumer finances for the Board each year since 1947.

The Reserve Banks, through their own planning departments or operating officers, follow developments in the fields of systems and bank equipment of various kinds and their adaptability to the efficient operations of the Reserve Banks. This work, however, is part of regular operations and is not considered as coming within the field of "development" and "applications engineering" as referred to in your letter.

The two activities, referred to earlier, which might be considered as developmental or engineering application programs, are arrangements with the Stanford Research Institute and with Battelle Memorial Institute. For some years, the System has been interested in the development of a machine to sort and count paper currency, and from time to time has called upon the Battelle Memorial Institute for assistance in this connection. The first contract, executed in March 1953 and completed early in 1954, provided for an evaluation by Battelle of proposals made by two manufacturing concerns for the development of a machine to count and sort paper currency of the \$1 denomination. It was subsequently decided that the possibility of electronically or automatically determining the genuineness of paper currency should be explored further before proceeding with negotiations with a manufacturing concern for the development of the paper currency sorting and counting machine, and in July 1955 Battelle was authorized to make a preliminary study along these lines. In the light of the conclusions of the preliminary study, a contract was entered into with Battelle in May 1956 for further research on one of the methods disclosed in the preliminary study for testing the genuineness of paper currency. This contract was completed in June 1957, and the economic feasibility of the project is now under consideration.

Early last year it was decided that outside advice should be sought by the Federal Reserve Banks in the matter of mechanization of their check handling operations, and in May 1957 a contract was entered into with the Stanford Research Institute for such advisory services. The contract,

The Honorable William L. Dawson -5-

which was regarded as the first of several that might be required to carry the program to a conclusion, contemplated that the principal activities of Stanford Research Institute would be (a) a fact finding study of the check handling operations and problems of the Federal Reserve Banks, (b) consideration of the scientific and economic feasibility of developing equipment to meet the requirements of the banks, and (c) a determination of the steps to be taken in the subsequent phases of the research program. This contract was completed in October and in November a second contract was entered into with Stanford Research Institute providing for further study of certain aspects of check handling problems and for the preparation of operational performance specifications covering equipment to meet the needs of the Federal Reserve Banks. It is contemplated that this contract will be completed about March 1, 1958.

5. As is apparent from the answer to the question above, we maintain very wide informal relationships with other research organizations but we do relatively little in the way of direct contracting. The specific projects which have been carried out through private contractors, educational institutions, etc., in the last ten years are listed in Exhibit C.

In general, for our purposes it is preferable to carry out both basic and applied research activities with regular full-time employees. The type of research and development contracts used by the defense establishment on weapons development would not be applicable to the type of work in which we are engaged. For certain specific types of research and to meet unusually heavy demands, however, it has been necessary and desirable from time to time to enter into outside contractual arrangements. This is particularly true of projects which require field survey work. Our experience with private contractors for this type of work has been highly satisfactory.

6. The major basic and applied research projects carried out by the Federal Reserve System since 1950 are listed in Exhibit D.

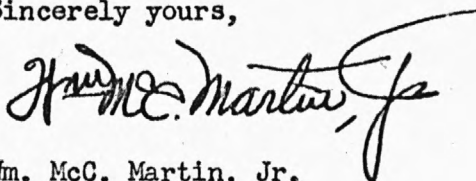
7. There have been no important changes in the organization structure of the research function in the Federal Reserve System since 1950. The number of persons employed on this work has

The Honorable William L. Dawson

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increased as additional effort has been directed toward improvement of our knowledge and understanding of the economic and monetary processes, but the basic lines of responsibility and authority are the same. The number of persons employed in research activity was approximately 600 in 1950, while at the end of 1957 it is estimated to be 750.

Sincerely yours,

A handwritten signature in cursive script that reads "Wm. McC. Martin, Jr." with a large, sweeping flourish at the end.

Wm. McC. Martin, Jr.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 13
1/10/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 10, 1958



Mr. Edward C. Gruen, Vice President,
Marine Midland Corporation,
Marine Trust Building,
Buffalo 5, New York.

Dear Mr. Gruen:

This refers to Marine Midland Corporation's application, pursuant to section 4(a) of the Bank Holding Company Act of 1956, for an extension of the period, for one year from May 9, 1958, within which it may retain its indirect control, through The Marine Trust Company of Western New York, the owner thereof, of 5,027 shares of the Liberty Building Corporation.

In accordance with the provisions of section 4(a) of the Act, the Board has granted the requested extension.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 14
1/10/58

In the Matter of the Application of
Wisconsin Bankshares Corporation for
Approval of Acquisition of Voting Shares
of Southgate National Bank of Milwaukee,
Milwaukee, Wisconsin.

ORDER EXTENDING TIME FOR COMPLETION OF ACQUISITION

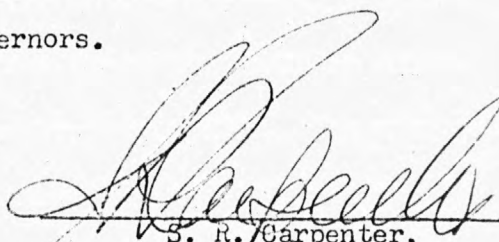
The above matter having come before the Board on the application of Wisconsin Bankshares Corporation, Milwaukee, Wisconsin, filed pursuant to the provisions of section 3(a)(2) of the Bank Holding Company Act of 1956, for prior approval of acquisition by Wisconsin Bankshares Corporation of direct ownership of 2,950 shares of a total of 3,000 voting shares of the proposed Southgate National Bank of Milwaukee, Milwaukee, Wisconsin, and it appearing after due consideration thereof in the light of the factors enumerated in section 3(c) of the Bank Holding Company Act of 1956 that such application should be granted,

And such application having been granted pursuant to Order of the Board, dated October 9, 1957, provided the acquisition be completed within three months from the date of the Board's Order,

IT IS HEREBY ORDERED, That the time within which such acquisition may be completed is extended to April 9, 1958.

This 10th day of January, 1958.

By order of the Board of Governors.


S. R. Carpenter,
Secretary.

SEAL

T E L E G R A M
LEASED WIRE SERVICEBOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTONItem No. 15
1/10/58

January 10, 1958

BRAWNER - SAN FRANCISCO

KECEA

- A. City Commerce Corporation, Anchorage, Alaska.
- B. City National Bank of Anchorage, Anchorage, Alaska.
- C. Prior to the issuance of limited voting permit authorized herein, City Commerce Corporation shall execute and deliver in duplicate to Reserve Bank an application for a voting permit on Form P-1, together with Exhibits A, C, M, and O.
- D. At any time prior to April 1, 1958, at the annual meeting of shareholders of such bank, or any adjournments thereof, (1) to elect directors and act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such bank, and (2) to amend the bylaws of such bank to provide for directors' fees and the exercise of trust powers, provided that all actions taken in connection therewith shall be satisfactory to the Comptroller of the Currency. STOP. The approval of actions taken by the Board of Directors in 1957, and the consideration of the President's and Auditor's reports are considered matters of a routine nature. Please advise applicant that permission to vote to provide in the bylaws for the exercise of trust powers by such bank is not to be construed as constituting Board approval of permission to exercise such powers.

(Signed) Merritt Sherman

SHERMAN

Definition of KECEA:

The Board authorizes the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

TELEGRAM

LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 16
1/10/58

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January 10, 1958

HALL - KANSAS CITY

KECTA

- A. Oklahoma Industrial Finance Corporation, Oklahoma City, Oklahoma.
 - B. The Farmers National Bank of Elk City, Elk City, Oklahoma.
 - C. Prior to issuance of limited voting permit authorized herein, applicant shall execute and deliver to you in duplicate an application for a voting permit Form P-1 with Exhibits A, C, M and O.
 - D. At any time prior to April 1, 1958, at the annual meeting of shareholders of such bank, or any adjournments thereof, (1) to elect directors of such bank and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such bank, (2) to increase the capital stock of such bank, change the par value of such stock from \$100 to \$10 per share, and take all necessary action in connection therewith, and (3) to declare a special cash dividend of \$155,000, provided that all actions taken with respect to items (2) and (3) shall be satisfactory to the Comptroller of the Currency.
- STOP. Limited voting permit requested by Oklahoma Industrial Finance Corporation for its subsidiary, Credit Service Loans, Inc., is not necessary because it is not a holding company affiliate of Farmers National Bank of Elk City. Setting the number of directors is considered to be a routine matter.

(Signed) Merritt Sherman

SHERMAN

Definition of KECEA:

The Board authorizes the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 17
1/10/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 10, 1958

H. Kempner,
Galveston,
Texas.

Gentlemen:

This refers to your letter of April 11, 1957, addressed to Mr. L. G. Pondrom, Vice President of the Federal Reserve Bank of Dallas, requesting a determination by the Board of Governors of the Federal Reserve System as to the status of H. Kempner, Galveston, Texas, as a holding company affiliate.

From the information submitted, the Board understands that the principal business of H. Kempner is that of a cotton merchant and exporter; that investments in bank stocks, representing approximately 4 per cent of total assets, consist of the ownership of over 60 per cent of the outstanding shares of stock of The United States National Bank of Galveston, Galveston, Texas, over 24-1/2 per cent of the outstanding shares of stock of Alvin State Bank, Alvin, Texas, 22 per cent of the outstanding shares of stock of First National Bank, Paragould, Arkansas, and less than 1/2 of 1 per cent of the outstanding shares of stock of San Angelo National Bank, San Angelo, Texas; and that H. Kempner does not own or control, directly or indirectly, any other bank stock and does not manage or control, directly or indirectly, any banking institution other than The United States National Bank of Galveston.

In view of these facts the Board has determined that H. Kempner is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended; and, accordingly, H. Kempner is not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act, and does not need a voting permit from the Board of Governors in order to vote the bank stock which it owns.

H. Kempner

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If, however, the facts should at any time differ from those set out above to an extent which would indicate that H. Kempner might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make a further determination of this matter at any time on the basis of the then existing facts.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 18
1/10/58

OFFICE OF THE CHAIRMAN

January 10, 1958.

Mr. L. K. O'Brien,
Chief Cashier,
Bank of England,
London, England.

Dear O'Brien:

I hope the attached memorandum, which was prepared in response to your letter of December 20, 1957, meets your needs. If not, please let me know what points require further amplification.

It is quite clear that our activities relating to Treasury debt operations differ in a great many respects from yours. I am not at all sure, therefore, that this memorandum will really cover all the points necessary. I understand that the substance may be made public in the Commission Report.

Very sincerely yours,

Winfield W. Riefler, Secretary,
Federal Open Market Committee.

Enclosure.

FEDERAL RESERVE ACTIVITIES
RELATING TO TREASURY DEBT OPERATIONS

Techniques of debt management in the New York market differ in many respects from those used in London. In this respect it is important to distinguish between the functions of the Federal Reserve Bank of New York as custodian and manager of the Federal Reserve System's Open Market Account and the activities of the Federal Reserve Bank of New York as fiscal agent for the United States Treasury in the Treasury's management of its several trust funds. In general, the Federal Reserve Act does not permit the Federal Reserve Banks to lend directly to the Treasury or to buy securities directly from the Treasury. U. S. Government securities held by the System must be acquired in the open market, unless they are received in exchange for maturing issues. The only exception to the general rule is the provision in the Federal Reserve Act which permits the System to extend accommodation to the Treasury up to a maximum of \$5 billion. It is understood that this facility is to be used for purely temporary accommodations. It has not been used, in fact, since 1954.

As to the System's operations managed by the New York Reserve Bank, intervention in the Government securities market during periods of Treasury refunding has been minimized following the Treasury-Federal Reserve Accord in 1951, and particularly since 1953. In early 1953 the Federal Open Market Committee adopted policies which provided that:

- (a) Operations for the System Account should be confined to the short end of the market; that
- (b) Intervention in the Government securities market was solely to effectuate the objectives of credit and monetary policy and not to support any pattern of prices and yields in that market; and that

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(c) The System during periods of Treasury financing would refrain from purchasing:

1. Any maturing issues for which an exchange is being offered,
2. When-issued securities, and
3. Outstanding issues of comparable maturity to those being offered for exchange.

In the past five years, therefore, the effects of Federal Reserve operations in the open market have been registered primarily in the System's portfolio of bills, while its holdings of bonds, certificates, and notes have changed mainly through the exchange of maturing issues for newly offered shortest-dated Treasury securities. During refunding periods, operations for the System Account, designed to maintain a stable situation in the money market, have been almost wholly transacted through bills or repurchase agreements. The only exception was in November 1955 when the Federal Reserve purchased in the market \$167 million "when-issued" securities--i.e., obtained newly offered securities in addition to those previously held in the System Account. This purchase amounted to less than 3 per cent of public holdings of maturing issues.

You may wish to contact the Treasury directly for a more authoritative comment on their activities. It is our understanding that the investment practices of the Treasury for its accounts are governed by various statutory provisions. In general, the prime criteria established by these provisions involve a maximization of returns consistent with prudent investment practice; in such cases investments must be limited to issues which provide yields above stated statutory minimums. At times these investment practices are consistent with purchases of "rights" and "when-issued"

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securities during refunding periods so that some purchases regarded by the market as support purchases have been made. As noted below, however, these purchases have been relatively small in recent years. Such transactions in marketable U. S. Government securities are executed by the Federal Reserve Bank of New York acting as fiscal agent for the Treasury. Because of their proximity and knowledge of the money and securities markets, New York Federal Reserve Bank officials regularly give the Treasury advice and counsel on all technical considerations surrounding each Treasury financing operation.

It should be noted that over 80 per cent of Trust Fund holdings are in nonmarketable special Treasury issues and that usually Treasury accounts hold less than one per cent of maturing marketable issues. In recent years, Treasury investment accounts have purchased marketable U. S. Government securities usually in relatively small amounts during Treasury refunding periods. On only two occasions, in November 1955 and in May 1957, have investment account purchases been substantial. Even in these instances, such purchases were less than 5 per cent and 10 per cent, respectively, of public holdings of the maturing issues. Since Treasury Trust accounts have greatly increased their holdings of U. S. Government securities in recent years, such purchases have not necessarily been sold off to the public at a later time but have become a permanent investment. The Treasury sometimes allots a portion of newly offered issues for subscription by its own accounts.

In the event that a particular Treasury exchange refunding operation is not well received by the market, there may be a net cash pay-out

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by the Treasury on the maturity date. It will be apparent from the foregoing that there is no mechanism available either to the Treasury or to the Federal Reserve System to prevent fully such a development. In such cases, to the extent that the Treasury's cash balances need replenishing, this must be done by other means—generally through borrowing new cash in the market.

January 10, 1958
Winfield W. Riefler

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 19
1/10/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 10, 1958

CONFIDENTIAL (FR)

Mr. Bert R. Prall, Chairman,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Prall:

The Board of Governors approves the payment of salary to Mr. W. G. Rickel as Assistant Cashier, Federal Reserve Bank of Chicago, Detroit Branch, for the period January 1, 1958 through December 31, 1958, at the rate of \$9,500 per annum, which is the rate fixed by your Board of Directors as reported in Mr. Harris' letter of December 26, 1957.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 20
1/10/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 10, 1958

CONFIDENTIAL (FR)

Mr. Raymond W. Hall, Chairman,
Federal Reserve Bank of Kansas City,
Kansas City 6, Missouri.

Dear Mr. Hall:

The Board of Governors approves the payment of salary to Mr. George H. Clay as Vice President, General Counsel, and Secretary of the Federal Reserve Bank of Kansas City for the period February 1, 1958 through December 31, 1958, at the rate of \$22,000 per annum, which is the rate fixed by the Board of Directors as reported in your letter of December 27, 1957.

The Board will interpose no objection to Mr. Clay continuing as a director of Trans World Airlines for a period not to exceed one year from the effective date of his employment.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 21
1/10/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 10, 1958

Mr. R. B. Wiltse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Wiltse:

In accordance with the request contained in your letter of January 7, 1958, the Board approves the appointment of George M. Yeager as an assistant examiner for the Federal Reserve Bank of New York. Please advise as to the date on which the appointment is made effective.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 22
1/10/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 10, 1958

Mr. R. H. Morrill, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Morrill:

In accordance with the request contained in your letter of December 31, 1957, the Board approves the designation of the following named individuals as special assistant examiners for the Federal Reserve Bank of San Francisco for the purpose of participating in examinations of State member banks only:

R. B. Cook	D. H. Childs	E. R. Liggett
T. E. Hopkins	A. Tinucci	V. E. Zeuske
R. L. Levine	D. F. Lee	R. E. Bremer
R. E. Prosser	W. C. Swanfelt	H. G. Helms
J. R. Smolley		J. F. Leyman

Appropriate notations have been made in our record of the names to be deleted from the list of special assistant examiners and the name of W. W. Taylor, Jr. has been changed on our records to W. W. Taylor, the designation "Jr." being eliminated.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.