

Minutes for September 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	x <u>(m) [Signature]</u>	_____
Gov. Szymczak	x <u>[Signature]</u>	_____
Gov. Vardaman	x <u>(V) [Signature]</u>	_____
Gov. Mills	x <u>[Signature]</u>	_____
Gov. Robertson	x <u>R. [Signature]</u>	_____
Gov. Balderston	x <u>ccB [Signature]</u>	_____
Gov. Shepardson	x <u>[Signature]</u>	_____

Minutes of the Board of Governors of the Federal Reserve System
on Wednesday, September 10, 1958. The Board met in the Special Library
at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Vardaman
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant Secretary
Mr. Thomas, Economic Adviser to the Board
Mr. Young, Director, Division of Research and
Statistics
Mr. Hackley, General Counsel
Mr. Masters, Director, Division of Examinations
Mr. Noyes, Adviser, Division of Research and
Statistics
Mr. Furth, Associate Adviser, Division of
International Finance
Mr. Solomon, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel

Financial Institutions, Inc. (Item No. 1). At the Chairman's
request Mr. Solomon reviewed his memorandum dated August 29, 1958, which
had been distributed prior to the meeting, relating to the application
of Financial Institutions, Inc., Warsaw, New York, a registered bank
holding company, for an exemption under section 4(c)(6) of the Bank Holding
Company Act that would permit it to retain voting shares of a nonbanking
organization. The memorandum pointed out that a hearing had been held
at Buffalo, New York, on June 12 before Mr. Charles W. Schneider, Hearing
Examiner, who recommended that the Board grant the application. The
subsidiary, Geneva Shareholders, Inc., was engaged in virtually no
activity except holding 93-1/2 per cent of the voting shares of one bank.
If it had such holdings of two or more banks instead of only one, it

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would fall within the definition of "bank holding company" in the Act and would be automatically qualified for retention by the applicant.

The Legal Division was in agreement with the Report and Recommended Decision of the Hearing Examiner and recommended that the Board authorize the issuance of an order granting the exemption.

Following Mr. Solomon's comments, the Board unanimously agreed to the adoption of an order in the form attached to these minutes as Item No. 1.

Request of First Bank Stock Corporation for extension of time (Item No. 2). Mr. Solomon then presented to the Board a request from counsel for First Bank Stock Corporation of Minneapolis, Minnesota, for an extension of time within which that Corporation might submit to the Board exceptions and supporting brief to the Hearing Examiner's Report filed with the Board on July 23, 1958. The Board had on August 7, 1958, previously granted an extension of time to September 15 for the filing of such exceptions and brief. Counsel for the First Bank Stock Corporation had requested that the time be further extended to October 20, 1958.

In a memorandum dated September 9, 1958, which had been distributed to the members of the Board prior to the meeting, Mr. Solomon and the Legal Division recommended that the request be granted.

Following Mr. Solomon's explanation of the circumstances, the Board unanimously agreed to the issuance of the order attached to these minutes as Item No. 2.

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Old Kent Bank and Trust Company suit (Item No. 3). Prior to the meeting there had been distributed to the members of the Board a memorandum from Mr. O'Connell dated September 3, 1958, relating to the matter of the suit filed against the Board in the District Court for the District of Columbia on August 1 by Old Kent Bank and Trust Company of Grand Rapids, Michigan. The memorandum pointed out that on August 18 the Civil Division of the Department of Justice had requested the Board to forward to that Division information, documents, and views of the Board relating to this suit. Accompanying the memorandum was a proposed reply to the letter from the Department of Justice containing a summary of pertinent facts, together with a statement of statutes and regulations thought to bear on the issues believed raised by the complaint filed by Old Kent. Along with these issues there were also stated possible defenses thereto.

At the Chairman's request Mr. O'Connell outlined the nature of the proposed reply and the proposals of the Legal Division with regard to the defense of this suit. Mr. O'Connell explained that, for all practical purposes, the nature of the complaint filed by Old Kent narrowed the Board's choice of actions at this point to either an Answer to the complaint, which would constitute a reply in detail, or a Motion to Dismiss or in the Alternative for Summary Judgment. If an Answer were filed, the allegations of the complaint would be either admitted or denied, and possible affirmative averments made. Trial would then proceed on the basis of the issues joined. If the motion mentioned were filed (this

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is a single motion, although stated in the alternative), it would allow the Board to set forth defenses based both on jurisdictional deficiencies and on the merits of the case. Mr. O'Connell stated that both the Legal Division and the Department of Justice favored the filing of the Motion since, by doing so, the Board could possibly be awarded a judgment on the merits without necessity of actual trial. He also stated that while the Department of Justice was the ultimate authority to determine the nature of the defense in this suit, there was no doubt that the Department would give serious consideration to the Board's position and preference for defenses, especially as these might be related to policy considerations.

Mr. O'Connell outlined three possible non-merit defenses to the action instituted by Old Kent. The first related to the action of Old Kent in operating and planning to continue to operate the former branches of Peoples National Bank, which action would appear to form a valid basis for the court's denial of the declaratory relief sought. This defense would be premised on the belief that since the Old Kent Bank was seeking a relief equitable in nature, it was therefore subject to the equitable defense that the failure of a plaintiff to come into court with clean hands should bar his right to the relief sought. In this instance Old Kent was willfully disregarding orderly administrative procedures in operating the branches in the face of a contrary order by the Board.

A second non-merit defense would have as its foundation an assertion that the Old Kent Bank, having applied to the Board for permission to operate these branches and having failed to challenge the

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jurisdiction or authority of the Board while the matter was before it, could not, for the first time, allege lack of jurisdiction before the court.

A third basis for defense might be an assertion that the Old Kent Bank lacked "standing to sue" for want of a justiciable issue. The harm and injury allegedly anticipated by Old Kent, namely, expulsion from the Federal Reserve System, would be too speculative and contingent to warrant judicial relief in the form of a declaratory judgment.

With regard to the latter defense, Mr. O'Connell pointed out that although the Department of Justice appeared to favor reliance upon it, the staff of the Legal Division did not feel inclined to press that issue because its validity as a matter of law was doubted and, even if legally sound, its use might give rise to the criticism that the Board was stating that it would not bring such proceedings.

On the question of defenses to the merits to be included in a Motion to Dismiss or in the Alternative for Summary Judgment, Mr. O'Connell explained that it would be contended, first, that the Board had authority to pass upon the operation of the branches of the merged institution; second, that the Board had the right to consider the element of competition; and, third, that the decision was a discretionary one vested in the Board by Congress; and that, therefore, the only point to be established was that the Board's decision was neither arbitrary nor capricious and was based on substantial evidence. In regard to the last matter, Mr.

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O'Connell explained that it would be necessary to make a full disclosure of all of the evidence considered by the Board in arriving at its decision. This would include the original application from the Old Kent Bank, the memorandum received by the Board from the Federal Reserve Bank of Chicago in regard to this matter, and also the memorandum from the Division of Examinations to the Board, all of which were considered in arriving at a determination of the issue. Without full disclosure, Mr. O'Connell felt there was real danger that the Board's Motion for Summary Judgment might be denied and that a cross motion for Summary Judgment by the plaintiff might be granted.

In any event, it was the view of the Legal Division that it would be necessary to ask the Department of Justice to request the District Court for an extension of time of at least 30 days for the filing of the reply with the District Court. Such extension would be essential, Mr. O'Connell pointed out, to provide sufficient time for the preparation of the documents and memoranda to substantiate the Board's position.

At the conclusion of Mr. O'Connell's presentation, Governor Vardaman said he wished to raise a question of principle as to whether the Legal Division leaned toward a trial on the merits or on the raising of technical defenses which might dispose of the suit without getting to the issues involved. Mr. O'Connell replied that, while it was true that technical defenses do not try the issues in a particular case, they should not be overlooked as a matter of strategy. Governor Vardaman

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then added that it was understandable that the Department of Justice might be more interested in winning a particular suit than in trying the issues. It was his personal preference, he said, not to use technical defenses that would preclude a settling of the issues. On the other hand, if in the use of such technical defenses it was intended that all of the evidence upon which the Board's decision was based would be presented to the court, he would have no objection to the procedure proposed. Mr. O'Connell pointed out that it was quite possible that any motion by the Board would be denied and that cross motions by the plaintiff would likewise be denied. In this event, of course, the matter would proceed to a trial based on the issues in the case.

Governor Mills also expressed the view that the case should not be handled in a manner which would fail to bring about a resolution of the basic issues involved, including whether the Board has authority to consider the factor of competition in the granting or denial of permission to operate branch offices in connection with the merger of two banks. Mr. O'Connell stated that it was intended that the Board's pleadings would be so framed as to bring about decision on this point, if possible.

The Chairman expressed the consensus of the Board that the procedure outlined by Mr. O'Connell appeared to offer a good start toward the defense of the suit.

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Thereupon it was unanimously agreed to send a reply to Assistant Attorney General Doub in the form attached to these minutes as Item No. 3. It was also understood that the Legal Division would be authorized to request the Department of Justice to ask the District Court to extend for 30 days the time within which a reply might be filed with the court in this matter.

At this point Mr. O'Connell withdrew from the meeting.

Questions raised by New York Clearing House Association. The Board then turned its attention to the consideration of a letter from the Federal Reserve Bank of New York dated August 18, 1958, with regard to certain questions raised by the New York Clearing House Association concerning the location in New York City of Edge Act corporations owned by corporations having their head offices in other States. The letter from the New York Bank suggested that at some stage it would probably be helpful and desirable to arrange for one or more informal joint meetings between representatives of the Clearing House Association and representatives of the Board of Governors and of the Federal Reserve Bank of New York to explore various aspects of this problem.

Mr. Masters reminded the Board that at its meeting on July 14, 1958, the Board had requested the Division of Examinations to make a survey and report on the operations of the Bank of America, New York. He stated that the processing of that study had been delayed but that it now looked as though it would be completed within a relatively short

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period of time. He felt that the report would be an integral part of the Board's consideration of this matter and questioned whether it might not be desirable to delay a reply until copies of the report were available. With regard to a suggestion by Governor Vardaman that the staff of the Federal Reserve Bank of New York might be brought into the discussion of the Division of Examinations' study before it was presented to the Board, Mr. Masters stated that Mr. Meyer, who had recently been employed by the Board as a consultant, was formerly Examiner Supervisor at the Federal Reserve Bank of New York and was therefore familiar with the views of the Bank's staff.

Governor Mills expressed concern that the report not represent a distillation of views in such fashion that varying individual observations would be lost. Since the ultimate decision rested with the Board, he suggested that care be exercised to present to the Board the full flavor of any views held by members of the staff rather than a consensus resulting from staff discussion.

It was then unanimously agreed that any reply to the letter from the Federal Reserve Bank of New York would be postponed until the report of the Division of Examinations was available for study and consideration.

At this point Messrs. Thomas and Furth withdrew from the meeting.

Procedure for handling Federal Reserve Bank budgets. Prior to the meeting there had been distributed to the members of the Board a

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memorandum dated September 8, 1958, from Mr. Farrell, Associate Director, Division of Bank Operations, outlining the general procedure suggested for handling the analysis and consideration of the 1959 budgets of the Federal Reserve Banks. In general, the proposals were the same as those approved for the consideration of the 1958 budgets.

There was unanimous agreement with the procedure outlined in the memorandum, a copy of which has been placed in the Board's records.

Contribution campaigns. Prior to the meeting a memorandum dated September 2, 1958, from Mr. Sprecher, Assistant Director, Division of Personnel Administration, had been distributed to the members of the Board outlining certain problems which had arisen in the conduct of contribution campaigns for the United Givers Fund and the Federal Service Campaigns since the inauguration of the Federal Fund-Raising Policy approved by President Eisenhower on June 27, 1956. The memorandum stated that the problems had arisen because, although the Federal Fund-Raising Policy was approved in June 1956, it was not until March 1957 that the White House issued a formal outline of this policy. In the meantime, when the letter to the Board's staff from the Chairman announcing the 1957 United Givers Fund campaign was distributed, it stated that this would be the only "pledge solicitation with established goals." This had led many employees to believe that there would be only one campaign without realizing that there would be a second campaign, but without dollar goals or quotas, for certain National Health

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Agencies, CARE, and Crusade for Freedom. This second campaign was approved in the Federal Fund-Raising Policy.

The Division of Personnel Administration recommended, therefore, that a paragraph be included in the letter from the Chairman to the Board's staff announcing the 1958 United Givers Fund campaign calling attention to the fact that there would be two campaigns. A suggested paragraph for insertion in the letter accompanied the memorandum.

The recommendation of the Division of Personnel Administration was unanimously approved.

At this point Messrs. Leonard, Director, Division of Bank Operations, Kelleher, Director, Division of Administrative Services, Molony, Special Assistant to the Board, and Sprecher, Assistant Director, Division of Personnel Administration, entered the room.

Revision of Board's emergency plan. Prior to the meeting there had been distributed to the members of the Board a memorandum from Mr. Leonard dated July 28, 1958, presenting a suggested revision of the Board's Plan for Relocation of Operations in an Emergency. The memorandum pointed out that the current revision was designed to bring the existing plan up to date. It did not touch upon the broader questions of whether operations from any predetermined relocation site would be practicable, the suitability of the existing relocation site, or possible alternatives.

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Mr. Leonard explained that the principal change of substance in the revised draft was to make the delegation of authority in the event of an emergency somewhat more complete and yet flexible. He stated that the revised draft and the existing plan both provided that if one or more members of the Board should be unavailable for duty, all powers and functions were delegated to the remaining members or member of the Board. They both provided for an Interim Board if no member of the Board were available.

The existing plan, however, spelled out a rigid certification procedure under which certification by the Secretary or Acting Secretary of the Board would be required for the delegation of authority to become effective. The revised draft eliminated any reference to the certification procedure.

The revised draft contained a new provision that if, after what the President of the Federal Reserve Bank of Richmond (or in his absence, the acting chief executive officer of that Bank) determined to be a reasonable time following an attack, or if at any later time while the plan was in effect he had received no word that any remaining member of the Board had survived the attack and was able to perform his duties, the delegation to the Interim Board became effective.

The revised draft also recognized that while circumstances might lead to the transfer of some functions to the relocation site, the Board itself might choose to function for a time either at Washington or at some other location.

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In addition, Mr. Leonard pointed out, there were certain editorial changes of some importance. The entire section "Protection of Personnel" in the existing plan would be eliminated on the basis that it was essentially a personnel matter that should be covered in a separate memorandum. Also, the names of those scheduled to proceed to the relocation site and of those to be in charge of personnel not scheduled for relocation would be included in attached schedules with the thought that necessary changes could be made in the schedules without affecting the basic plan.

Following Mr. Leonard's comments, the revised Plan for Relocation of Operations in an Emergency was approved unanimously. A copy of the plan has been placed in the Board's files.

Other defense planning matters. Governor Robertson then indicated to the Board that there were three other matters related to defense planning which he wished to bring to the Board's attention.

The first related to the recruitment of a person who would take full charge, at staff level, of the development of the defense planning program on a continuing basis. Governor Robertson pointed out that Mr. Leonard had been carrying the brunt of this activity and that it would be extremely difficult for anyone who succeeded Mr. Leonard in his other responsibilities also to assume the defense duties. He suggested that Governor Shepardson, with the assistance of Mr. Leonard, try to find someone who would be properly qualified to do this work.

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Governor Shepardson said he would be glad to undertake the responsibility if the Board agreed, but that he hoped he would also have the counsel of Governor Robertson on this matter. Thereupon, there was unanimous agreement with Governor Robertson's suggestion.

The second of the defense matters related to the development of an appropriate plan for taxation to be incorporated in the over-all program of economic planning. Governor Robertson reminded the Board that it previously had set up a group under Mr. Noyes to develop an over-all program of economic planning. In the course of this group's work it became evident that one of the more critical areas related to the working out of an appropriate plan of taxation. He stated that the research staff had learned of a doctoral dissertation prepared by a law student in New York City which appeared to have an ingenious solution to some of the problems encountered by the study group. Dr. Robinson had been in contact with its author, Mr. Charles F. G. Raikes, and it appeared that there was some possibility that Mr. Raikes could be retained for a temporary period to explore the possibilities of his plan with the Board's staff. Governor Robertson felt that a month or six weeks might be sufficient for this purpose and asked that Governor Shepardson be requested to investigate the possibilities of concluding appropriate arrangements for the temporary retention of Mr. Raikes.

There was unanimous agreement with this suggestion.

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Finally, Governor Robertson stated that he felt the time had arrived when the Board must do more than it had done thus far with regard to adequate protection for the Board's offices. He suggested that Governor Shepardson be requested to explore the possibility of using the area owned by the Board across "C" Street for the construction of underground defense quarters. It was likely, he thought, that such quarters could also serve as the foundation for an annex building if and when the Board needed additional space for operating purposes. He said that the Office of Defense and Civilian Mobilization has qualified engineers available for consulting work on such a project.

There was unanimous agreement with this suggestion by Governor Robertson.

In response to a question, Mr. Kelleher indicated that he had already taken steps to consult with defense personnel on "hardening" the existing Federal Reserve Building.

All of the members of the staff except Messrs. Kenyon and Sprecher then withdrew from the meeting. Miss Ayers, Administrative Assistant, Division of Personnel Administration, was called into the room during the discussion of the following topic.

Employee training and development program (Item No. 4). Attached to these minutes under Item No. 4 is a memorandum from the Division of Personnel Administration dated August 21, 1958, recommending that an employee training and development program as outlined therein be authorized

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by the Board. Copies of the memorandum had been distributed prior to this meeting.

Governor Shepardson reviewed for the Board the reasons that had led him to suggest to the Division of Personnel Administration the formulation of a program of this kind. He then raised for consideration several questions which would affect the implementation of the program.

The first of these questions related to whether the proposed program should be integrated with the staff development program which was authorized by the Board in 1957 to provide for the training of higher-level employees. The reaction of the Board on this question was in the affirmative, with the understanding, pursuant to a suggestion by Governor Balderston, that the policy statement on the integrated program would contain a paragraph as follows:

It is understood that this in no way relieves heads of divisions of their direct responsibility for the development of their staffs or for studying and reporting to the Division of Personnel Administration the training and development needs of their respective divisions.

The second question was whether the program should include provision for academic training. In commenting on this matter, Governor Shepardson expressed the view that it would be desirable to include academic training in certain highly deserving situations, with the understanding that requests for such training would be carefully reviewed on a basis that would take into account the progress made by the employee in advancing his own status. Agreement then was expressed with the proposal to include academic training in the program, subject to the limitations mentioned by Governor Shepardson.

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The third question related to whether an employee, before undertaking outside training, should be required to sign a written agreement that at the expiration of the training period he would continue in service for a prescribed period or, upon voluntary separation within that period, pay the amount of the additional expenses incurred in connection with the training. Governor Shepardson indicated that he questioned the necessity or desirability of imposing such a requirement, for care would be taken in the selection of employees for outside training assignments to insure insofar as possible that they were responsible individuals who would realize their obligation to share with the Board the benefits of their training by continuing in the Board's service for a period of time following such training. Also, any special case appearing to require an agreement of this type would be reviewed by the appropriate Board member. Agreement was expressed with Governor Shepardson's view that in these circumstances it would not be necessary or desirable to impose the requirement of the written agreement.

The fourth question was whether any restriction should be placed on the volume of training authorized at any one time. Following comments on this matter by Governor Shepardson, agreement was expressed with the view that there should be no restriction in this respect, particularly because the whole training and development program would be under the continuing surveillance of the member of the Board having responsibility for internal affairs of a managerial nature.

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The final question related to whether some specific period of Board service should be required before an employee would become eligible for an outside training assignment. Agreement was expressed with the view that this matter could be handled administratively and that no rigid requirement need be imposed.

Thereupon, it was agreed unanimously to adopt the proposed employee training and development program, with the understanding that steps to implement the program would be taken by the Division of Personnel Administration under the supervision of Governor Shepardson.

Mr. Sprecher and Miss Ayers then withdrew from the meeting.

Acceptance of honoraria and royalties; payment of actual travel expenses (Item No. 5). Under existing Board policy, as stated in a memorandum to all employees in 1949 and reaffirmed in 1955, staff members were to accept no fee, honorarium, or other compensation for professional articles and lectures and no royalties on books or on chapters of books compiled by others. In view of questions raised from time to time regarding this policy, Governor Shepardson had asked a staff committee to review the matter and give him suggestions. Copies of the memorandum submitted by this committee had been distributed to the members of the Board prior to this meeting, along with a memorandum from Governor Shepardson dated September 5, 1958, which contained the following recommendations:

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1. That individuals be allowed to receive honoraria for professional articles and royalties on books or parts of books not to exceed \$500 in any one year. This would be with the understanding that the Board would continue to exercise the same control it now exercises over the nature and substance of signed contributions to assure that nothing appears over the signature of a member of the Board's staff which might embarrass the Board; also, that any such writing for compensation does not impinge on the individual's responsibility to the Board.

2. That proposals for authorships involving considerable time and royalties that might exceed \$500 be negotiated on the basis of the interest of the Board in the subject proposed, the competence of the author, and the amount of time and effort that might be required.

3. That, in view of the administrative problems involved, honoraria for lectures at educational institutions be handled on a case-by-case basis, to be decided by the Board member in charge of administration on the same principles as teaching activities.

4. That when an individual is scheduled to deliver a talk or represent the Board at a meeting at which hotel costs are likely to exceed substantially the established allowance, he be allowed to apply to the Board member in charge of administration for authority to submit a bill for actual expenses in lieu of a per diem allowance.

In commenting, Governor Shepardson referred to existing Board policy as being more restrictive than that followed by other agencies

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of the Government and as appearing to be inconsistent with the policy under which staff members are permitted to accept compensation for teaching. He considered it desirable for members of the Board's staff to be allowed to do a limited amount of teaching, and he likewise considered it desirable from the standpoint of professional recognition for staff members to be allowed to contribute occasional articles to professional journals, as long as such activities are kept within bounds and do not impinge on the individual's duties and responsibilities to the Board. In addition, he said, limited activities of that sort would appear to be beneficial from the standpoint of staff morale. Preparation of certain books would, of course, be likely to require much more time and to constitute far more extensive projects. Therefore, it seemed appropriate that such projects be reviewed and passed upon on a case-by-case basis.

Turning to the question of travel expenses, Governor Shepardson said that when a member of the staff is called upon to represent the Board at some meetings, it may be known that hotel costs are well above the per diem limitation. In such situations, he would suggest that the Board member in charge of administration be authorized to approve travel on an actual expense basis.

The ensuing discussion of these matters included the comment by Governor Mills that, as he understood it, the recommendation on compensation for writings in the professional field did not contemplate acceptance of compensation for papers delivered at meetings where the preparation and delivery thereof was in the line of an individual's official duties as a member of the Board's staff.

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Governor Mills also said that he questioned the desirability of going beyond the usual per diem allowance.

Further discussion of the latter point made it clear that payment of actual expenses, upon the approval of the Board member in charge of administration, was envisaged as being limited to those cases where the meeting in question was to be held at a location at which minimum costs at the only acceptable hotel were likely to exceed substantially the established per diem allowance. Within this limitation, it was the consensus that it would not be inappropriate to allow some latitude at the discretion of the appropriate Board member in individual cases.

Thereupon the recommendations in Governor Shepardson's memorandum were approved, subject to the qualification with respect to payment of actual travel expenses which was specified at this meeting. A copy of the memorandum sent to the members of the Board's senior staff pursuant to this action is attached as Item No. 5.

Code of Ethics (Items 6, 7 and 8). By Concurrent Resolution 175, the 85th Congress endorsed a Code of Ethics for Government Service. In a memorandum dated September 2, 1958, of which copies had been sent to the members of the Board, Governor Shepardson stated that he had reviewed with the Legal and Personnel Divisions the question as to what action, if any, the Board should take in connection with this resolution. On the basis of that review it was recommended that an explanatory letter signed by Chairman Martin and a copy of the code be distributed to all members of the Board's staff. In the thought that the Federal Reserve Banks might

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wish to bring the code of ethics to the attention of their directors, officers, and employees, there was also submitted with the memorandum a proposed letter to the Reserve Banks.

Following comments by Governor Shepardson with regard to the reasons underlying his recommendation, Governor Mills raised the question whether such a procedure, when considered along with others currently in effect, might not be regarded as more or less seeming to cast doubt on whether the members of the Board's staff could be counted upon to recognize their responsibilities. Comments by other members of the Board indicated an awareness of the problem referred to by Governor Mills. On the other hand it was felt that the endorsement of the code of ethics by the Congress created a situation which would make it inadvisable for the Board not to bring the code to the attention of its staff.

In view of these circumstances, it was agreed that the procedure recommended in Governor Shepardson's memorandum should be followed. Copies of the letter signed by Chairman Martin and the letter sent to the Federal Reserve Banks pursuant to this action are attached as Items 6 and 7, respectively, and a copy of the code of ethics is attached as Item No. 8.

Absence report. In a memorandum dated August 27, 1958, which had been distributed to the members of the Board, Governor Shepardson submitted a sample of a proposed revised format of the report currently

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prepared by the Secretary's Office at the Board's direction showing contemplated absences of the Board members and the official staff on the basis of information furnished by the respective offices. It was his recommendation that the Secretary's Office be instructed to begin using the revised form, and that distribution of the report continue on the present basis; namely, distribution to members of the Board, advisers to the Board, division heads, and certain additional staff members to whom information of this nature is useful in the performance of their official duties.

There was unanimous agreement with Governor Shepardson's recommendation.

Discount rates. Reference was made to the action taken by the Board on August 18 and reaffirmed on August 20, 1958, which authorized the Secretary's Office, pending further action by the Board, to advise any Reserve Bank of approval of a discount rate of either 1-3/4 per cent or 2 per cent, as established by the Bank's directors. It was agreed unanimously to rescind this action.

Reference then was made to a telegram from the Federal Reserve Bank of Boston advising that the directors of that Bank on September 8, 1958, had reestablished, subject to the Board's approval, a discount rate of 1-3/4 per cent. Attention also was called to the fact that meetings of the directors of several Reserve Banks were scheduled for tomorrow and that some of those Banks were still maintaining a discount rate of 1-3/4 per cent.

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Question was raised as to the advisability of continuing a split discount rate, particularly in view of the forthcoming Treasury financing, tentatively scheduled to be announced on or about September 25. This led to the question whether the 1-3/4 per cent rate established by the Boston Reserve Bank should be approved by the Board and what action should be taken if directors of other Reserve Banks, at their meetings tomorrow, were to reestablish the existing 1-3/4 per cent rate at those Banks. The suggestion was made that since the 1-3/4 per cent rate at Boston would continue in effect in the absence of any action on the part of the Board, no action be taken on the rate of that Bank until it could be seen what was done on the discount rate by the directors of those Banks scheduled to meet tomorrow.

In this connection Chairman Martin noted that President Erickson was not present at the meeting of the Boston directors last Monday since he was in Washington to attend the meeting of the Presidents' Conference. He said he had assumed that the Board had clear authority to determine the discount rate of a Reserve Bank if it deemed such action necessary. However, from discussion with the Board's General Counsel it appeared that the authority is based largely upon an opinion of the United States Attorney General rendered many years ago. In such circumstances, he felt that the Board should weigh all of the facts very carefully before it decided to determine the discount rate of a Federal Reserve Bank. He also referred to a letter that had been received from Chairman Bierwirth of the

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Federal Reserve Bank of New York regarding the attitude of the directors of that Bank toward the discount rate and said that he had been endeavoring to reach Mr. Bierwirth by telephone for discussion of the situation.

After further discussion, it was decided not to act today on the discount rate of 1-3/4 per cent established by the Boston directors and to consider again tomorrow what procedure should be followed both with respect to the discount rate at the Boston Bank and the rates which might be established by the directors of those Reserve Banks where directors' meetings were scheduled to be held tomorrow.

The meeting then adjourned.

Secretary's Notes: On September 9, 1958,
Governor Shepardson approved on behalf of
the Board the following items:

Memorandum dated August 27, 1958, from Mr. Marget, Director, Division of International Finance, recommending the appointment of Anna Irene Sansalone as Clerk in that Division, with basic annual salary at the rate of \$3,755, effective the date she assumes her duties.

Letter to the Federal Reserve Bank of Philadelphia (attached Item No. 9) approving the designation of six persons as special assistant examiners.

Governor Shepardson today approved on behalf
of the Board the following items:

Memorandum dated September 8, 1958, from Mr. Hackley, General Counsel, recommending the appointment of Janet Hart (Mrs. Harry Sylvester) as Assistant Counsel in the Legal Division, with basic annual salary at the rate of \$8,330, effective the date she assumes her duties.

Letter to the Federal Reserve Bank of Richmond (attached Item No. 10) approving the designation of three persons as special assistant examiners.

Kenneth A. Kenyon
Assistant Secretary

UNITED STATES OF AMERICA

Item No. 1

9/10/58

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

In the Matter of the Application of

FINANCIAL INSTITUTIONS, INC.

Under Section 4(c)(6) of the Bank
Holding Company Act of 1956

DOCKET NO.

BHC - 45

ORDER

On July 29, 1958, the Hearing Examiner issued his Report and Recommended Decision in the above-entitled proceeding, recommending to the Board that it grant the application of Financial Institutions, Inc. for a determination that Geneva Shareholders, Inc., Geneva, New York, and activities thereof are of the kind described in section 4(c)(6) of the Bank Holding Company Act of 1956 and section 5(b) of the Board's Regulation Y so as to make it unnecessary for the prohibitions of section 4 of the Act with respect to retention of shares in nonbanking organizations to apply in order to carry out the purposes of the Act. The time for filing with the Board exceptions and brief to the recommended decision of the Hearing Examiner expired without any exceptions or brief having been filed.

Pursuant to section 4(c)(6) of the Bank Holding Company Act and section 5(b) of the Board's Regulation Y, and on the basis of the entire record, the Board hereby adopts the findings of fact, conclusions of law, and the recommendations of the Hearing Examiner as set forth in the attached copy of his Report and Recommended Decision, and makes the following Order:

IT IS HEREBY ORDERED that the request of Financial Institutions, Inc., under section 4(c)(6) of the Bank Holding Company Act of 1956 for a determination exempting its shares in Geneva Shareholders, Inc. from application of the prohibitions of section 4(a)(2) of the said Act shall be, and hereby is, approved.

This 10th day of September, 1958.

By order of the Board of Governors.

Voting for this action: Messrs. Martin, Chairman, Balderston, Vice Chairman, Szymczak, Vardaman, Mills, Robertson, and Shepardson.

Voting against this action: None.

(SEAL)

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Washington, D. C.
September 10, 1958.

Item No. 2
9/10/58

UNITED STATES OF AMERICA
BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C.

In the Matter of the Applications of
FIRST BANK STOCK CORPORATION
for determinations pursuant to
section 4(c)(6) of the Bank Holding
Company Act of 1956

DOCKET NOS.
BHC-36 and 37

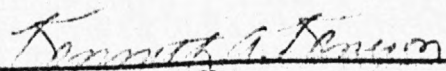
ORDER EXTENDING TIME FOR FILING EXCEPTIONS AND
BRIEF TO THE HEARING EXAMINER'S REPORT AND RECOMMENDED
DECISION BY FIRST BANK STOCK CORPORATION

Additional time having been requested by First Bank Stock Corporation within which to file with the Secretary of the Board its exceptions and brief to the Hearing Examiner's Report and Recommended Decision and it appearing to the Board that such request should be granted, it is hereby ORDERED that the time within which First Bank Stock Corporation may file such exceptions and brief be, and the same hereby is, extended to and including October 20, 1958.

This 10th day of September, 1958.

By order of the Board of Governors.

(SEAL)


Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 3
9/10/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 11, 1958



Honorable George Cochran Doub,
Assistant Attorney General,
Civil Division, Department of Justice
Washington, D. C.

Attention: Donald B. MacGuineas, Esq.,
Chief, General Litigation Section.

Re: Old Kent Bank and Trust Company v.
William McC. Martin, Jr., individually
and as Chairman of the Board of Governors
of the Federal Reserve System, et al.,
Civil Action No. 1993-58; D.J. File 145-105-8.

Dear Mr. Doub:

This is in reply to your letter of August 18, 1958, directed to the attention of the Board's General Counsel, containing detailed requests for information, copies of documents and recommendations of this office in connection with the above-entitled matter.

Statement of facts. - Old Kent Bank and Trust Company (hereinafter referred to as "plaintiff"), was organized in 1908 under the General Banking Law of the State of Michigan, under the corporate name of Kent State Bank, Grand Rapids, Michigan, for the purpose of carrying on the business of banking. Kent State Bank was admitted as a member of the Federal Reserve System in 1917. In April 1929, The Old National Bank, Grand Rapids, Michigan, was consolidated with and into Kent State Bank under the charter of the latter and under the name of Old Kent Bank. On February 8, 1938, the State Banking Department, under the provisions of the Michigan Financial Institutions Act (Act 341 of 1937, as amended, Vol. 17, Michigan Statutes Ann., section 23.711 et seq.), extended the corporate term of Old Kent Bank for a period of 30 years from May 26, 1938. In December 1956, the Michigan Trust Company, Grand Rapids, Michigan, consolidated with and into Old Kent Bank, under the latter's charter, as amended, and under the name of Old Kent Bank and Michigan Trust Company (hereinafter called "Old Kent"). It is significant that this 1956 consolidation was accomplished

Honorable George Cochran Doub

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following receipt of written approval of the Banking Department of the State of Michigan, together with the written authorization of both that Department and the Board of Governors for the establishment and operation of the former main office of Michigan Trust Company as a branch of the consolidated institution. (This fact is relevant, it is believed, as bearing on the plaintiff's prior knowledge of the Board's assertion of authority to approve the establishment and operation of branches following a consolidation or merger, and as evidence of the plaintiff's prior acquiescence in such assertion of authority.)

On or about February 17, 1958, representatives of Old Kent and Peoples National Bank of Grand Rapids (hereinafter called "Peoples"), a national banking association chartered under the National Bank Act by the Comptroller of the Currency met with representatives of the Federal Reserve Bank of Chicago for the purpose of discussing a proposed merger of the two banks. (The Agreement and Plan of Merger and/or Consolidation, dated February 24, 1958, was approved by the boards of directors of the two banks on February 24, 1958, and by their shareholders on March 31, 1958.) At the February 17th meeting, a general discussion was had concerning the factors to be considered by the Board in determining approval or disapproval of the branch operation plan proposed. It is believed that plaintiff's representatives were advised during this meeting that one of the principal factors was the potential effect on competition that might follow approval of the proposed branch operation. This fact, if it is such, can be established through affidavit of appropriate personnel of the Federal Reserve Bank of Chicago.

On or about February 21, 1958, a meeting took place at the offices of the Board of Governors between Mr. William J. Schuiling, President of Peoples, and members of the Board's staff during which Mr. Schuiling was advised that the establishment of the former offices of Peoples as branches of the plaintiff bank would require prior approval of the Board and that in this connection the Board would be required to consider the tendency of this proposed plan toward monopoly and the likelihood of its lessening competition in the area involved. (These facts can also be established by affidavit.) By letter dated April 9, 1958, signed by R. W. Gates, Vice President, Old Kent, "formal application" was made through the Federal Reserve Bank of Chicago for the Board's permission to operate as branches of the consolidated institutions the former offices of Peoples.

Honorable George Cochran Doub

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On May 23, 1958, the Board advised Old Kent of its decision to deny approval of the establishment of the branches in question "in view of the adverse effect which the proposed transaction would seem likely to have on competition in the area."

On May 26, at the request of representatives of Old Kent and Peoples, those representatives appeared before the Board for the purpose of urging reconsideration of the branch proposal. At this meeting a substantial portion of the discussion was concerned with the question of the effect of the proposed plan on competition in the area. By letter of May 28, plaintiff was advised that the Board had determined that it "would not be justified in changing the conclusion set forth in its letter of May 23" and that "It appears that the transaction will result in a significant reduction of competition in banking business in the Grand Rapids area, which may be contrary to the public interest."

By letter dated June 11, 1958, Old Kent submitted to the Board a new proposal whereby Old Kent would operate branches of the consolidated bank at the previous sites of Peoples' main office and two of its six branches (one of these would be an out-of-town branch). There were also enclosed resolutions of the boards of directors of Old Kent and Peoples authorizing the preparation and submission of the revised branch operation plan.

On June 17 a conference was held between representatives of Old Kent and the Board during which plaintiff's representatives orally urged Board approval of the branch operations as proposed in the June 11th letter. In this connection, they argued against the conclusion that any adverse effect on competition would result if this plan were put into effect. By letter of June 18 the Board declined to approve the new branch operation proposal.

On July 22 Mr. Gerhard Gesell of the law firm of Covington & Burling, the latter firm representing Old Kent, met with certain members of the Board's staff to further discuss the above branch proposal incident to the merger, as well as a possible variation of that proposal whereby plaintiff would sell to a competing bank four of the buildings that formerly housed branches of Peoples. In the course of this meeting Mr. Gesell stated that he doubted the Board's authority to refuse approval to Old Kent for the operation of the three branches as proposed in the plaintiff's letter of June 11.

On July 31 Mr. Morgenstern, President of Old Kent, advised the President of the Federal Reserve Bank of Chicago in writing that counsel for Old Kent was of the opinion that "... the Federal Reserve

Honorable George Cochran Doub -4-

Board does not have the authority claimed in this instance either to require the elimination of branches resulting from such a merger where such branches were existing and previously approved offices of the constituent banks in the merger or to take such action upon the ground of its effect upon competition in the area." Further, the letter stated, "We will continue to seek, therefore, to retain as operating offices the Wealthy-Lake Drive and Rogers Heights branches and, for the time being, the main office of Peoples National Bank . . ." The letter also stated that the other four offices of Peoples would be closed or transferred to such other banks as may be approved by the State Banking Commissioner and the Federal Reserve Board.

On the same date, July 31, the Deputy Commissioner of the Banking Department of the State of Michigan authorized Old Kent to transact banking business under the amended name of Old Kent Bank and Trust Company, and authorized the establishment and operation of branches of the plaintiff at the former locations of the main office and branches of Peoples. On August 1, 1958, plaintiff was operating in and around Grand Rapids its main office and 27 branches, including the 7 offices formerly operated by Peoples. On the same date, plaintiff filed its Complaint for Declaratory Judgment.

Relevant statutes and regulations. - The Board of Governors was established by, and its principal operations are conducted pursuant to, the Federal Reserve Act, Act of Dec. 23, 1913, c. 6, § 9, 38 Stat. 251; 12 U.S.C. § 221, et seq., as amended. The Board's supervisory authority over State banks that are members of the Federal Reserve System is derived principally from section 9 of the Federal Reserve Act, as amended by Acts of June 21, 1917, 40 Stat. 232; Feb. 25, 1927, 44 Stat. 1229; June 16, 1933, 48 Stat. 164; June 16, 1934, 48 Stat. 921; Aug. 23, 1935, 49 Stat. 721; Aug. 17, 1950, 64 Stat. 458; July 15, 1952, 66 Stat. 633. In particular, the Board's authority to approve or disapprove the operation by a State member bank, a consolidated or merged institution, of branches that, prior to the consolidation or merger, were operated by the bank consolidating or merging with and into the consolidated or merged institution, is derived from the Acts of August 23, 1935 and July 15, 1952, supra. The former Act inserted in the proviso of the third paragraph of section 321, title 12, the language "except that the approval of the Board of Governors of the Federal Reserve System, instead of the Comptroller of the Currency shall be obtained before any State member bank may hereafter establish any branch and before any State bank hereafter admitted to membership may retain any branch established after February 25, 1927, beyond the limits of the city, town, or village, in which the parent bank is situated." The Act of July 15, 1952, inserted the last sentence of the present section 321 dealing with in-town branches.

Honorable George Cochran Doub

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Between June 16, 1933, and August 23, 1935, the authority to approve the establishment by a State member bank of any branch beyond the limits of the city, town or village in which the parent bank was situated was vested in the Comptroller of the Currency, by virtue of the wording of the 1933 amendment to section 9 of the Federal Reserve Act. The August 23, 1935, amendment to section 9 transferred to the Board this power of approval of such out-of-town branches. The language of the 1935 amendment has been quoted, supra.

The Board's construction and interpretation of § 321 is contained, in part, in Section 8 of the Board's Regulation H, 12 C.F.R., pt. 208, § 208.8. In acting upon any branch application, the Board follows the procedure set forth in its Rules of Procedure, 12 C.F.R., pt. 262, issued pursuant to the Administrative Procedure Act and other relevant provisions of law, including the Federal Reserve Act.

Also applicable to the instant case are those provisions of the Administrative Procedure Act dealing with judicial review of administrative action, and in particular, Sec. 10 thereof, which precludes from judicial review, agency action which is by law committed to agency discretion.

Legal issues involved; possible defenses thereto. - Plaintiff's allegations appear to raise the following questions or issues:

(a) Following a consolidation of a national bank into and with a State member bank under the charter of the latter, does the Board have jurisdiction to approve or disapprove the retention and operation by the resulting State member bank of the main office and branches which were operated by the national bank prior to the consolidation? A related question, of course, is whether the "retention and operation" by the resulting State member bank constitutes "establishment and operation" of such branches.

(b) Assuming that the Board's jurisdiction in the above premise is established, does the Board have authority to disapprove an application for the retention [establishment] and operation of such branches based on a finding that approval would result in an adverse effect on competition?

(c) Assuming that the Board's authority as described in (b), supra, is established, are determinations by the Board under this authority subject to judicial review? If so, did the Board have "substantial evidence" on which to base its denial of approval?

Honorable George Cochran Doub

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In a conversation between Mr. Andrew P. Vance of your office and Mr. O'Connell of the Board's staff on August 26, 1958, it is understood that the issues as above outlined were briefly discussed, Mr. O'Connell advising that, at the present time, the Board's staff had not fully developed authorities in the nature of legislative history, administrative practices and court decisions, to support the affirmative of these issues. However, it is anticipated that there will be soon completed by this office a preliminary memorandum of authorities that would, it is believed, support a motion to dismiss or, in the alternative, a motion for summary judgment. Immediately upon completion of such a memorandum, it will be forwarded to your office for study and appropriate action.

The suggestion above that a motion to dismiss might be appropriately joined with a motion for summary judgment has basis in the fact, set forth in paragraph 19 of the Complaint, that "plaintiff is, and plans to continue, operating the former Peoples branches in addition to the Peoples main office." This fact, as further expanded in the above statement of facts, would appear to form a valid basis for the court's denial of the declaratory relief sought. This conclusion is premised on the belief that such relief is equitable in nature and is, therefore, subject to the equitable defense, among others, that the failure of a plaintiff to come into court with clean hands should bar his right to the relief sought. In this case, this allegation is premised on plaintiff's willful disregard of orderly administrative procedures in operating the branches in question in the face of a contrary order by the Board. This argument will be more fully developed in our forthcoming memorandum.

One other possible basis for moving to dismiss the Complaint would be the plaintiff's "lack of standing to sue", in that it might be asserted that the harm and injury allegedly anticipated by the plaintiff, namely, expulsion from the Federal Reserve System, is too speculative and contingent to warrant judicial relief. Inasmuch as the speculative and contingent nature of plaintiff's alleged injury would not appear to justify an injunction against the Board were such relief otherwise appropriate, a declaration of rights under such circumstances is equally inappropriate. See Eccles et al. v. Lakewood Village, 333 U.S. 426. In relation to the defense of lack of standing to sue based on the absence of a justiciable controversy, apart from the ultimate determination of whether such defense would be appropriate (and it is believed that legitimate question does exist as to whether such defense is available here), the position in which the Board might find itself if this defense were used may alone preclude its being pleaded. In establishing the assertion that the danger of plaintiff's being expelled

Honorable George Cochran Doub

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from the Federal Reserve System is speculative and uncertain, the Board might well be opening the door to the criticism that it is failing to perform a supervisory duty imposed upon it by law. On the other hand, if such a pleading were made and sustained, and thereafter the Board instituted proceedings to expel plaintiff from the System, it could be alleged that the Board had acted in bad faith in raising the defense originally. These considerations are raised merely for your study prior to a more extensive discussion of them with the Board's staff.

In the absence of a determination that the issues foreseen would be best determined on Answer to the Complaint, rather than on motion, a list of the names, official positions, and addresses of persons with knowledge of the facts, and a summary of their probable testimony, seems unnecessary at this time. If, as herein suggested, the matter first comes before the court on our motion, facts in issue can, for the most part, be established by appropriate affidavit.

In regard to and in support of certain of the facts above set forth, copies of the following documents and correspondence are enclosed:

(a) Letter dated December 14, 1956, from Board's Secretary to Board of Directors, Old Kent Bank, approving establishment of a branch in connection with 1956 consolidation. (p. 2)

(b) Letter dated April 9, 1958, from R. W. Gates, Old Kent Bank to W. R. Diercks, Federal Reserve Bank of Chicago, making formal application re operation of branches presently in issue. (p. 2)

(c) Letter dated May 23, 1958, from Board's Secretary to Board of Directors, Old Kent Bank, declining approval of branch proposal. (p. 3)

(d) Letter dated May 28, 1958, from Board's Secretary to President, Old Kent Bank, reaffirming Board's decision as contained in letter of May 23. (p. 3)

(e) Letter dated June 11, 1958, from Carl H. Morgenstern to Board, requesting further Board consideration of the branch proposal. (p. 3)

(f) Letter dated June 18, 1958, from Board's Secretary to Morgenstern, reaffirming Board's position as previously expressed. (p. 3)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Honorable George Cochran Doub

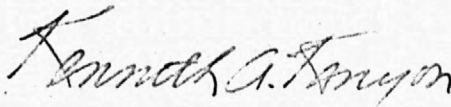
-8-

(g) Letter of July 31, 1958, from Morgenstern to Federal Reserve Bank of Chicago. Also letter of July 31, from Warner, Norcross & Judd to Old Kent Bank, referred to in Morgenstern's letter. (p. 4)

There is no provision in the Federal Reserve Act for an administrative hearing on an application under Section 9. The Board has interpreted the nature of such an application as a request for a license not requiring a hearing under the Administrative Procedure Act. As a result, no hearing was held and there is no "transcript of administrative hearing." The Board's "administrative ruling or order" is contained in its letters of May 23, May 28 and June 18, attached.

If, after further discussion of this matter among representatives of your staff, the United States Attorney's office and this office, it should appear that copies of other documents or correspondence are necessary, every effort will be made to make them available.

Very truly yours,



Kenneth A. Kenyon,
Assistant Secretary.

Enclosures

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

2552

Item No. 4
9/10/58

Date August 21, 1958.

Office Correspondence

To Board of Governors
From Division of Personnel Administration

Subject: Employee Training and Development
Program.

REASON FOR RECOMMENDATION

Job training and employee development has become generally accepted as an important activity in progressive personnel programs in both Government and industry. Several specialized training programs have been conducted for Board employees during the past year, such as Work Simplification, Secretarial Seminars, and Electronic Computer Programming. In addition, the Board has shown its interest in training for higher level employees through the Staff Development Program, authorized in 1957. More recently, the Employees' Committee has shown considerable interest in employee training and development.

The programs already conducted have been of mutual benefit to the Board and to the employees, and it is apparent that continued training is desirable if the Board's staff is to be cognizant of the best modern technical and administrative techniques. It would seem, however, that training of Board employees should not be confined to courses of instruction in special areas as the need arises, but that all training activities should be coordinated and administered as part of a broad program, systematically planned to provide continuous employee development in the many phases of the Board's operations.

RECOMMENDATION

It is recommended, therefore, that the following program be authorized by the Board as part of its personnel management program:

Employee Training and Development Program

An Employee Training and Development Program is authorized to provide means for the development of greater proficiency of Board employees in the performance of their duties.

This program shall be continuous in nature, and all members of the Board's staff are to be considered eligible to participate. Determination of training assignments will be based on mutual benefits to be derived by both the employee and the Board, and should take into consideration employees' attitudes, morale, and own efforts in self-improvement.

Primarily, training authorized under this program will be directly related to an employee's current duties, with due consideration being given to potential capacity for assuming broadened responsibilities.

To: Board of Governors

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Training activities provided by this program will not replace on-the-job training given by supervisors. Instead, this program will supplement and extend such training, both within the Board and at outside facilities, and thus, encourage and stimulate employees to undertake more self-improvement activities to enhance their own career development potential.

The Division of Personnel Administration, through consultation and with the assistance of the heads of the various Divisions of the Board, shall be responsible for the effective promotion, administration, and co-ordination of this program, subject to the direction of the Board Member responsible for internal affairs that are of a managerial nature. Annually, that Division will conduct a review of the requirements of this program, including need for its continuance.

Provisions for the cost of this program will be made in the budget of the Division of Personnel Administration, subject to the budgetary review of the Office of the Controller.

COMMENT

There is attached a discussion of some special matters on which the Board may wish to make a definite determination at this time, and also, an outline of the plan for implementing this program, should it be approved by the Board.

E. J. Johnson

Attachments 2

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEMItem No. 5
9/10/58

September 24, 1958

To: Senior Staff
From: Governor Shepardson

Questions have arisen from time to time regarding acceptance by members of the Board's staff of honoraria for professional articles and lectures and of royalties on books or chapters of books compiled by others. The policy of the Board which was announced in a memorandum to all employees in 1949 and was reaffirmed in 1955 provided that staff members would receive no fee, honorarium, or other compensation for such articles or talks.

The Board has recently reconsidered its policy and has taken action as follows:

1. Individuals will be allowed to receive honoraria for professional articles and royalties on books or parts of books not to exceed \$500 in any one year.

(Note: It should be understood that the Board will continue to exercise the same control it now exercises over the nature and substance of signed contributions to assure that nothing appears over the signature of a staff member which might embarrass the Board; also that any such writing for compensation does not impinge on the individual's responsibility to the Board.)

2. Proposals for authorships involving considerable time and royalties that might exceed \$500 will be negotiated on the basis of the interest of the Board in the subject proposed, the competence of the author, and the amount of time and effort that might be required.

3. The matter of acceptance of honoraria for lectures at educational institutions will be treated on a case-by-case basis, to be decided by the Board Member in charge of administration on the same principles as teaching activities.

4. When an individual is scheduled to deliver a talk or represent the Board at a meeting at which minimum costs at the only acceptable hotel are likely to exceed substantially the established allowance, he

Board of Governors

-2-

may apply to the Board Member in charge of administration for authority to submit a bill for actual expenses in lieu of a per diem allowance.

Heads of divisions are authorized to give these modifications of the Board's policy such circulation within their respective divisions as they may deem appropriate.

Chas W. Shepherdson

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

Item No. 6
9/10/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 16, 1958.

To All Members of the Board's Staff:

The attached Code of Ethics, which has been endorsed by the Congress of the United States in a recent resolution, outlines the responsibilities of Government employees and has been set up as a basic standard of conduct for the guidance of all who are privileged to be a part of the Government service.

While the Board has complete confidence in the ethical conduct of its staff, it believes that it is of benefit to all of us to reflect from time to time on our personal responsibilities as public employees. As a stimulus to such reflection this Code of Ethics is distributed for your information.

Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Attachment.



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

Item No. 7
9/10/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 16, 1958.

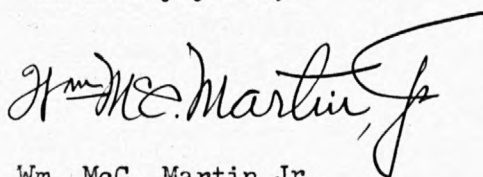
Dear Sir:

In the last Congress, both Houses by Concurrent Resolution endorsed a Code of Ethics for Government Service.

In commenting on the Resolution, Senator Lyndon Johnson noted that, while it creates no new law and imposes no legal restraints, its purpose is "to set forth in a readily understood but meaningful manner basic standards of conduct as a guide to all who are privileged to be a part of the Government service."

With the thought that it is well to remind ourselves of our personal responsibilities as public employees, the Board has distributed copies of the enclosed Code of Ethics to all members of its staff. Since the Federal Reserve Banks share with the Board of Governors many important functions of trust that are exercised by the System, including those of the Federal Open Market Committee, it is suggested that you may wish to bring this Code of Ethics to the attention of the directors, officers, and employees of your Bank.

Sincerely yours,



Wm. McC. Martin Jr.

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS



Item No. 8
9/10/58

CODE OF ETHICS FOR GOVERNMENT SERVICE

*(Endorsed by the Congress of the United States in Concurrent
Resolution 175--85th Congress)*

Any person in the Government service should:

1. Put loyalty to the highest moral principles and to country above loyalty to persons, party, or Government department.
2. Uphold the Constitution, laws, and legal regulations of the United States and of all governments therein and never be a party to their evasion.
3. Give a full day's labor for a full day's pay; giving to the performance of his duties his earnest effort and best thought.
4. Seek to find and employ more efficient and economical ways of getting tasks accomplished.
5. Never discriminate unfairly by the dispensing of special favors or privileges to anyone, whether for remuneration or not; and never accept, for himself or his family, favors or benefits under circumstances which might be construed by reasonable persons as influencing the performance of his governmental duties.
6. Make no private promises of any kind binding upon the duties of office, since a Government employee has no private word which can be binding on public duty.
7. Engage in no business with the Government, either directly or indirectly, which is inconsistent with the conscientious performance of his governmental duties.
8. Never use any information coming to him confidentially in the performance of governmental duties as a means for making private profit.
9. Expose corruption wherever discovered.
10. Uphold these principles, ever conscious that public office is a public trust.

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

Item No. 9
9/10/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 9, 1958



Mr. E. C. Hill, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia 1, Pennsylvania.

Dear Mr. Hill:

In accordance with the request contained in your letter of September 3, 1958, the Board approves the designation of the following employees of your bank as special assistant examiners for the Federal Reserve Bank of Philadelphia for the purpose of participating in the examinations of State member banks only:

Robert P. Carey
R. Lee Klaer
Robert Kline

The Board also approves the designation of the following employees of your bank as special assistant examiners for the Federal Reserve Bank of Philadelphia for the purpose of participating in the examinations of State member banks except the banks listed immediately above their names:

Provident Tradesmens Bank and Trust Company,
Philadelphia, Pennsylvania

John F. Tressel
Charles V. Austin

Girard Trust Corn Exchange Bank,
Philadelphia, Pennsylvania

Charles V. Austin

The First Pennsylvania Banking and Trust Company,
Philadelphia, Pennsylvania

John L. Ackroyd, Jr.

To: Mr. E. C. Hill, Vice President

- 2 -

The authorizations heretofore given your bank to designate Charles V. Austin and John L. Ackroyd, Jr. as special assistant examiners are hereby cancelled.

Appropriate notations have been made in our records of the names to be deleted from the list of special assistant examiners.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 10
9/10/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 10, 1958



Mr. N. L. Armistead, Vice President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Armistead:

In accordance with the request contained in your letter of September 5, 1958, the Board approves the designation of the following employees of your bank as special assistant examiners for the Federal Reserve Bank of Richmond for the purpose of participating in the examinations of the State member banks only, except the banks indicated immediately above their names:

Southern Bank and Trust Company,
Richmond, Virginia

Charles E. Beaman

The Bank of Virginia,
Richmond, Virginia

Charles P. Goodall, Jr.
C. William Guthrie, Jr.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.