Minutes for September 22, 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.

Chm. Martin
Gov. Szymczak
Gov. Vardaman 1/
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson

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 Monday, September 22, 1958. The Board met in the Special Library at
10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson

Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Leonard, Director, Division of Bank Operations
Mr. Marget, Director, Division of International
Finance
Mr. Hackley, General Counsel
Mr. Furth, Associate Adviser, Division of International
Finance
Mr. Sammons, Associate Adviser, Division of Inter-
national Finance
Mr. Solomon, Assistant General Counsel
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Poundstone, Federal Reserve Examiner, Division
of Examinations

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:

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<td>Letter to the Rhode Island Hospital Trust Company, Providence, Rhode Island, approving the establishment of a branch in Bristol. (For transmittal through the Federal Reserve Bank of Boston)</td>
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<td>2</td>
<td>Letter to the Federal Reserve Bank of New York advising that Board approval would not be required for the Long Island Trust Company, Garden City, New York, to establish certain drive-in facilities and additional tellers' windows under the circumstances described.</td>
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Letter to International Banking Corporation, New York, New York, interposing no objection to the acquisition of additional shares of Societe Elysees Boetie and Societe de Construction et d'Exploitation aux Champs-Elysees. (With a copy to the Federal Reserve Bank of New York)

Letter to the Guaranty Bank & Trust Company, Hammond, Louisiana, approving the establishment of a branch at West Thomas Street and Richardson Avenue. (For transmital through the Federal Reserve Bank of Atlanta)

Letter to the Federal Reserve Bank of Dallas approving the payment of salary to Thomas W. Plant as Vice President and Cashier.

Messrs. Nelson and Poundstone then withdrew from the meeting and Mr. Young, Director, Division of Research and Statistics, entered the room.

Clarification of terms "gold stock" and "Treasury gold stock".

In a memorandum from Messrs. Marget and Leonard dated September 10, 1958, which had been circulated to the members of the Board, it was pointed out that the figure for "gold stock" shown in the analysis of member bank reserves, reserve bank credit, and related items issued with the weekly statement of condition of the Federal Reserve Banks and in the related tables in the Federal Reserve Bulletin is the amount of "gold" in the account of the Treasurer of the United States as reported in the daily statement of the United States Treasury. Since January 1934 these figures have not included the small amount of gold held in the active portion of the Exchange Stabilization Fund. Prior to February 26, 1947, they did include the inactive gold holdings of that fund but such holdings
were excluded from the United States Treasurer's account in February 1947 when the United States completed the payment of its quota to the International Monetary Fund. Tables in the international statistics section of the Federal Reserve Bulletin show for end-of-month dates an item labeled "Treasury gold stock" which corresponds to the item of gold stock shown in the weekly reserve analysis table, and in addition an item labeled "total gold stock" of the United States with a footnote explaining that the "total" figures include gold in the Exchange Stabilization Fund. In order to avoid misinterpretation of gold stock figures published by the Board, it was recommended that the terms "gold stock" and "Treasury gold stock" as used in the weekly statement and in the Bulletin tables be changed to "monetary gold stock", which would be consistent with the Treasury Bulletin, specifically a table therein entitled "Monetary stocks of gold and silver". If this suggestion were adopted, an appropriate footnote would appear in the first weekly statement thereafter and in the related issue of the Federal Reserve Bulletin which would explain that the change in caption was solely for clarity.

In its concluding paragraph, the memorandum stated that Messrs. Riefler and Thomas had suggested that a preferable solution would be to revise the reserve analysis table to show total gold stock and to include the Exchange Stabilization Fund gold in the Treasury accounts shown on the other side of the balance sheet. At the same time the deposit balance of the Exchange Stabilization Fund with the Federal Reserve Bank of New York would be transferred from "other deposits" to Treasury deposits with
Federal Reserve Banks. Such a change, however, would have to be negotiated with the Treasury, which had preferred to keep the Exchange Stabilization Fund deposit balance concealed.

After introductory comments by Mr. Marget concerning the nature and purpose of the proposal, there followed a discussion of the matter during which Messrs. Riefler and Thomas presented the view that it would be desirable to make as honest and clean a presentation as possible in the weekly statement. If the gold in the Exchange Stabilization Fund were not to be included, they felt that the omission should be recognized. If the recommendation in the memorandum from Messrs. Marget and Leonard were accepted, Mr. Thomas suggested adding to the explanatory footnote that would appear on the first occasion of use of the term "monetary gold stock" in the weekly statement a reference to the fact that "monetary gold stock" did not include the gold in the Exchange Stabilization Fund but that such figure for end-of-month dates could be found in a specified table in the Federal Reserve Bulletin.

Mr. Leonard commented that the weekly statement issued by the Board does not purport to cover the entire economic situation. Rather the analysis, as its title indicates, refers only to member bank reserves, reserve bank credit, and related items. Gold in the Stabilization Fund, he pointed out, does not affect member bank reserves.

Governor Mills then stated that if the Treasury has an item under its control that it does not want to publicize, there would seem to be a question whether a Board publication should call attention directly to
that fact. Discussion of this point included the comment by Mr. Thomas that the report in the Federal Reserve Bulletin each month presumably was initiated with the Treasury's permission. This raised the question why, if there was no apparent Treasury objection to the monthly publication of the figure concerned in the Federal Reserve Bulletin, there would be any objection to the adding of a sentence to make the footnote to the weekly statement complete.

In further discussion a distinction was drawn between the use of clarifying terminology and the use of a "clean" figure on gold stock which obviously would have to be cleared with the Treasury through negotiations.

Governor Robertson then suggested approving the recommendation contained in the memorandum from Messrs. Marget and Leonard with regard to terminology, notifying the Treasury that the Board would propose to put this change into effect as of January 1, 1959, and stating that before that time the Board would hope to obtain Treasury permission for a completely clean statement, in which event that statement would be substituted for what was now proposed.

Governor Szymczak said that he would concur, with the understanding that despite the outcome of negotiations with the Treasury there would be added to the proposed explanatory footnote a sentence relating to the gold in the Exchange Stabilization Fund of the kind Mr. Thomas had mentioned.

There being agreement with these suggestions, question was raised regarding the manner of communicating the advice to the Treasury. Governor
Mills, who previously had suggested an informal approach, referred to the possibility of introducing the subject at one of the weekly Treasury luncheons before a letter was sent to the Treasury, and the other members of the Board concurred.

Mr. Leonard commented that the proposed effective date for the change (January 1, 1959) would be particularly appropriate because the staff had in mind submitting to the Board before that date two or three other changes in the weekly statement of condition which it was hoped might become effective at the first of the year.

Mr. Leonard then withdrew from the meeting.

Gold loans to Haiti and Bolivia (Items 6 and 7). A request of the National Bank of Haiti for a 90-day gold loan in the amount of $700,000 and a request from the Central Bank of Bolivia for a 90-day gold loan in the amount of $600,000 both had been authorized by the Board of Directors of the Federal Reserve Bank of New York subject to approval by the Board of Governors. Prior to this meeting there had been distributed to the members of the Board memoranda from Mr. Marget dated September 19, 1958, containing favorable staff recommendations.

Mr. Marget pointed out that each of the gold loan requests was from a country which was carrying out a stabilization program under the supervision of the International Monetary Fund. In the case of Haiti the loan would be for seasonal purposes. In the case of Bolivia persons at the International Monetary Fund familiar with the terms of the stabilization agreement being renegotiated with Bolivia had advised informally that they saw no objection to granting the proposed loan.
Governor Szymczak noted that the situation in Bolivia involved problems of a rather difficult character. Bolivia had been operating for almost two years under a stabilization program approved by the International Monetary Fund, with financial assistance from the Fund and the United States Government. Although the stabilization program may have accomplished certain desirable results, there were still severe problems of credit and fiscal policy confronting the government of the country. Governor Szymczak also noted that the gold loan would be collateralized by certain commemorative gold coins which the Central Bank of Bolivia proposed to ship to New York to serve as collateral for the loan and "as prospective sale". The alternatives might be that the gold would have to be sold, additional assistance would have to come from the United States Government, or the International Monetary Fund would have to supply additional assistance.

Mr. Marget noted that System gold loan policy includes provision for loans within the framework of stabilization programs. He also said that he would be inclined to insist upon sale of the gold collateral if necessary in order to repay the loan.

Governor Mills said that he shared many of the reservations expressed by Governor Szymczak regarding the Bolivian loan. As he saw it, this would be essentially a political loan, not a central bank loan, which raised the question whether the Federal Reserve should have any
part of political credits. As a banking measure, he said, the proposed loan would be suspect because in essence it depended for its soundness on the right to sell the gold collateral rather than the accumulation of resources which would repay the loan automatically.

Governor Mills also stated that in each of these cases there apparently had been a breakdown of the procedure under which the Board has an opportunity for preliminary consideration of proposed gold loans before formal action is taken by the directors of the Federal Reserve Bank of New York. In the circumstances, he felt that there was little choice except to go along with the decisions of the New York directors. In further comments, Governor Mills said that both the Export-Import Bank and the Treasury have made balance-of-payments loans to several Latin American countries for fundamentally the same purposes as the Bolivian gold loan. Considering the reasons for the credits and also the sensitive nature of the areas involved, it seemed to him that assistance should more appropriately be granted through such channels.

Mr. Marget said that the matter of procedure mentioned by Governor Mills would be borne in mind in the future. In neither of these two cases, he said, had he regarded the loan as falling within a questionable category. If they had been so regarded, they would have been presented to the Board for preliminary consideration to the extent possible within the limitations of the rather short advance notice given by the New York Reserve Bank.
With further reference to the Bolivian loan, Mr. Marget said he did not believe the basic reason in support of granting the loan would be the availability of the collateral for sale if necessary. Rather he believed that the stabilization program of Bolivia represented a solid framework for a constructive movement. Given the framework of a program which includes the provision of resources by the United States Government, he felt that this was the kind of a situation calling for sympathetic consideration. The Government of Bolivia happened to have the gold coins as an asset to use while final negotiations were pending on an extension of the stabilization program.

Governor Szymczak then stated that he would favor approving the two loans but that the Bolivian situation should be watched carefully, while Governor Mills stated that he did not think the Board had a great deal of choice at this stage.

Accordingly, approval was given to the telegrams to the Federal Reserve Bank of New York of which copies are attached to these minutes as Items 6 and 7.

The meeting then adjourned.

Secretary's Note: Pursuant to the authority given by the Board on September 17, 1958, the Secretary's Office today advised the Federal Reserve Bank of Boston of approval, effective September 23, 1958, of a rate of 2 per cent on discounts for and advances to member banks under Sections 13 and 13a, a rate of 2-1/2 per cent on advances to member banks under Section 10(b), and the remaining rates in the Bank's existing schedule without change. All Federal Reserve Banks and
branches were notified by telegram, a press release was issued in the usual form, and arrangements were made for publication of a notice in the Federal Register.

Pursuant to the procedure approved by the Board on January 24, 1958, the Secretary's Office today notified the Federal Reserve Bank of Atlanta of approval of the establishment without change on September 22 of the rates on discounts and advances in that Bank's existing schedule.

On August 12, 1958, the Board approved a revision of the Loss Sharing Agreement of the Federal Reserve Banks with the understanding that the revision would become effective when a duly executed counterpart original had been received from each Federal Reserve Bank. Such counterparts originals having been received, the Federal Reserve Banks were notified today that the revised Agreement became effective September 22, 1958.

[Signature]
Assistant Secretary
Board of Directors,
Rhode Island Hospital Trust Company,
15 Westminster Street,
Providence, Rhode Island.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Boston, the Board of Governors of the Federal Reserve System approves the establishment by Rhode Island Hospital Trust Company of a branch at 1146 Hope Street, Bristol, Rhode Island, provided the branch is established within one year from the date of this letter, and approval of the State banking authorities is effective as of the date the branch is established.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Mr. R. B. Wiltse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Wiltse:

Reference is made to your letter of September 5, 1958, submitting the application of Long Island Trust Company, Garden City, New York, for permission to establish a branch at 12 Henry Street, Incorporated Village of Freeport, Town of Hempstead, Nassau County, New York. According to the information submitted, the bank proposes to establish drive-in facilities and additional tellers' windows in a small building located 125 feet from the rear of the building housing the present Freeport Office and on property owned by the bank. It is understood that the intervening space is used for parking purposes by the bank.

Upon the basis of these facts, the Board has concluded that the proposed facilities would not constitute a new branch requiring the Board's approval. However, in the event of a change in ownership or use of the intervening space, the question of whether these facilities would constitute the operation of a branch would require reconsideration. Please advise the applicant bank accordingly.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Mr. J. MacN. Thompson,
Secretary and Treasurer,
International Banking Corporation,
55 Wall Street,

Dear Sir:

This refers to your letter of June 10, 1958, stating that under date of October 10, 1957, you purchased 19 shares of Societe Elysees Boetie (Paris land company) and 2 shares of Societe de Construction et d'Exploitation aux Champs-Elysees (Paris building company).

It is noted that your Corporation is the owner of substantially all of the outstanding shares of these two French corporations and that, in addition to the shares actually owned by your Corporation, you had entered into agreements with certain individual shareholders whereby in the event of death of the individual shareholders your Corporation was given the option to acquire the holdings of such shareholders. It is understood that two shareholders died in 1957 and that you exercised your option to acquire the shares under the agreements and that the cost of such shares was written off by a charge to Reserve for Contingencies in the amount of $1,417.

On the basis of the information furnished, the Board interposes no objection to the acquisition of the additional shares above described of Societe Elysees Boetie and Societe de Construction et d'Exploitation aux Champs-Elysees.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Atlanta, the Board of Governors of the Federal Reserve System approves the establishment of a branch by Guaranty Bank & Trust Company, Hammond, Louisiana, at the corner of West Thomas Street and Richardson Avenue, Hammond, Louisiana, provided the branch is established within nine months from the date of this letter, and the approval of the State authorities is in effect as of the date of the establishment of the branch.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon, Assistant Secretary.
CONFIDENTIAL (FR)

Mr. Watrous H. Irons, President,
Federal Reserve Bank of Dallas,
Dallas 2, Texas.

Dear Mr. Irons:

Reference is made to your letter of September 12, 1958, advising that Vice President Thomas W. Plant has been appointed Vice President and Cashier, effective October 1, 1958.

The Board of Governors approves the payment of salary to Mr. Plant at his new title for the period October 1 through December 31, 1958, at the rate of $14,000 per annum. While the rate indicated is the same as that approved for Mr. Plant effective January 1 of this year, as reported in the Board’s letter of December 13, 1957 to Chairman Robert J. Smith, the previous approval was in his former capacity as Vice President.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
September 22, 1958.

DAVIS - NEW YORK

Your wire September 18. Board approves granting of loan on gold by your Bank to Banco Central de Bolivia of $600,000 on the following terms and conditions:

(A) To be collateralized by the pledge of gold under earmark in a form acceptable to the officers of your Bank and having a value of approximately $692,000;

(B) To mature in three months with option to repay before maturity;

(C) To be requested and made within 30 days of the date on which the Board approves the granting of such loan;

(D) To bear interest at the discount rate of your Bank in effect on the date on which such loan is made.

It is understood that the usual participation will be offered to the other Federal Reserve Banks.

(Signed) Kenneth A. Kenyon

KENYON
September 22, 1958.

DAVIS - NEW YORK

Your wire September 18. Board approves granting of loan on gold
by your Bank to Banque Nationale de la Republique d'Haiti of
$700,000 on the following terms and conditions:
(A) To be made up to 96 per cent of the value of gold bars set
aside in your vaults under pledge to you;
(B) To mature in 3 months with option to repay before maturity;
(C) To be requested and made within thirty days of the date on
which the Board approves the granting of such loan;
(D) To bear interest at the discount rate of your Bank in effect
on the date on which such loan is made.

It is understood that the usual participation will be offered to
the other Federal Reserve Banks.

(Signed) Kenneth A. Kenyon

KENYON