Minutes for October 1, 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  x  
Gov. Szymczak  x  
Gov. Vardaman  x  
Gov. Mills  x  
Gov. Robertson  x  
Gov. Balderston  x  
Gov. Shepardson  x  
Minutes of the Board of Governors of the Federal Reserve System on Wednesday, October 1, 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. Hackley, General Counsel
Mr. Masters, Director, Division of Examinations
Mr. Farrell, Associate Director, Division of Bank Operations
Mr. Smith, Assistant Director, Division of Examinations

Discount rates. Unanimous approval was given to a telegram to the Federal Reserve Bank of Atlanta approving the establishment without change by that Bank on September 29, 1958, of the rates on discounts and advances in its existing schedule.

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:

Letter to the Federal Reserve Bank of Boston concerning a proposal to merge the common trust funds established under the provisions of Section 17(c) of Regulation F by The Merchants National Bank of Boston and the Day Trust Company.

Memorandum from Mr. Marget regarding a possible visit to the Central Banks of Honduras, El Salvador, and Guatemala.
Letter to International Banking Corporation, New York, New York, approving the establishment of branches in Capetown, Durban, and Port Elizabeth by The First National City Bank of New York (South Africa) Limited. (For transmittal through the Federal Reserve Bank of New York)

Letter to the Federal Reserve Bank of Kansas City approving additional expenditures resulting from rate increases and changes in benefits under the hospitalization insurance contracts at the Oklahoma City and Omaha branches.

Use of Federal Reserve funds for entertainment purposes (Item No. 5). Pursuant to the understanding at the meeting on September 11, 1958, there had been distributed to the members of the Board copies of a proposed letter to the Presidents of the Federal Reserve Banks concerning the use of Federal Reserve funds for nonofficial entertainment of persons not in the employ of the Federal Reserve Banks. The draft expressed the view that due consideration should be given to the public interest aspect of the Federal Reserve System when the use of Federal Reserve funds for such purposes was contemplated and that expenditures of this nature should be limited to those which could be justified by the benefits received by the Reserve Bank. In the case of annual dinners, Christmas parties, and similar affairs given by a Reserve Bank for its own employees, agreement was expressed that the inclusion of the wives and husbands of employees (and guests of unmarried employees) is a necessary and desirable part of the personnel relations program and results in benefits to the Bank concerned. In the Board's opinion, however, any benefits derived from dinner parties given for delegates from other Federal Reserve Banks and
their wives attending the annual national convention of the American
Institute of Banking would not be sufficient to justify the expenditure.
It was suggested that upon such an occasion a tour of the Reserve Bank,
coupled perhaps with an informal luncheon, would be of more benefit than
a dinner party.

Governor Shepardson stated that in preparing the draft of
letter an effort had been made to reflect what appeared to be the consen-
sus when the subject was discussed by the Board on September 11.
However, the suggestion had been made that the draft took too firm a
position with respect to a specific function, that is, the dinner parties
given in connection with AIB conventions, and accordingly it had been
proposed that the last paragraph of the letter be omitted. Instead, a
sentence would be added to the paragraph citing the principle that
expenditures should be limited to those which can be justified by the
benefits received by the Reserve Bank. Such a sentence would state that
this general principle should be borne in mind in determining the pro-
priety of expenses for nonofficial entertainment of persons other than
Reserve Bank personnel on such occasions as the national conventions of
the AIB.

Governor Shepardson went on to say that he thought there was
merit in not specifically prohibiting all functions given for personnel
from various parts of the Reserve System and their immediate families,
and in this connection he noted that the number of wives attending one
of the dinner parties given at the time of an AIB convention probably
would be very limited. If the Reserve Banks were to handle such functions with discretion, he personally would see no great objection. Adoption of the suggested change, he noted, would result in casting the letter in somewhat the same tone as the Board’s recent letter to the Federal Reserve Banks on the subject of membership dues.

Governors Vardaman and Mills expressed a preference for the letter as originally drafted because they felt that the suggested revision could be interpreted as sanctioning certain types of expenditures that it might be difficult to defend.

Governor Balderston said that upon reading the original draft he had the feeling that the last paragraph thereof tended to inject the Board’s thinking too much into detailed operations of individual Reserve Banks. He also expressed the opinion that consideration should be given to the Federal Reserve System as a System rather than a series of individual Banks. From a System viewpoint, there might be justification for certain functions involving personnel from other Reserve Banks, and in some cases it would be only reasonable to include members of the immediate family. Therefore, he was concerned not only about the detailed nature of the last paragraph but also the basic philosophy.

Governor Robertson likewise expressed concern about the last paragraph and suggested its elimination. Instead, he would state that expenditures should be limited to those which could be justified by the benefits received by the Reserve Bank and the Reserve System. He said that he would be willing to defend such a statement against any charges
that might be made because he thought that there are benefits derived from various Bank functions which involve persons from other parts of the System. As an example, he considered entirely appropriate the luncheon given at the Federal Reserve Bank of Chicago during the recent ABA convention for Federal Reserve Presidents and their wives. The same principle, he said, would apply to similar functions arranged for System personnel at a somewhat lower level. Both he and Governor Balderston specified, however, that no form of elaborate entertainment would be justified.

Governor Mills then raised the question whether a letter revised in the manner suggested by Governor Robertson would be so broad as to seem to permit Reserve Bank expenditures of many kinds for persons one step removed from the ranks of Reserve System personnel, while Governor Szymczak suggested that omission of the last paragraph might result in the letter not being sufficiently specific. It appeared to him that questions of interpretation would arise.

Question was raised by Governor Robertson whether provision should be made for approval of expenditures of this nature by the directors of the Reserve Bank concerned, and Governor Mills commented that an expression of general policy would have the advantage of avoiding situations where certain expenditures specifically approved by the directors would be called into question.

After further discussion it was proposed that the original draft of letter be changed to incorporate Governor Robertson's suggestion
and that there be retained the portion of the final paragraph citing
dinner parties given for delegates to conventions as being unjustified.
This proposal contemplated that reference would be made to dinner
parties outside the Reserve Bank and that dinner parties of that nature
in connection with AIB conventions would be cited in terms of an example.

There being agreement with these suggestions, unanimous approval
was given to a letter to the Reserve Banks in the form attached as
**Item No. 5.**

**Maintenance of stock brokerage account by Reserve Bank employee**
(Item No. 6). In reviewing the most recent report of examination of the
Federal Reserve Bank of San Francisco at the meeting on August 18, 1958,
the Board noted the circumstances surrounding the maintenance of a stock
brokerage account by Mr. Seymour Miller, a research employee of the
Reserve Bank. Subsequently, Chairman Martin discussed the situation with
President Mangels, who advised in a letter dated September 3, 1958, that
arrangements had been made for Mr. Miller to dispose of enough of his
holdings to pay off his indebtedness. For tax reasons, however, Mr. Miller
would like to be allowed to extend the liquidation of the indebtedness
over a period of about six months. There had been circulated to the members
of the Board a draft of reply to President Mangels indicating that the
Board would interpose no objection to resolving the matter on the basis
suggested.

Governor Mills suggested the possibility of developments that
might result in a request for extension of the period during which the
liquidation of the indebtedness would be accomplished. He raised the
question whether, in the best interests of all concerned, including the employee, it might not be desirable to take the position that the debit balance should be eliminated immediately.

Following some discussion of the matter in the light of the circumstances set forth in Mr. Mangels' letter, it was the consensus that no extension of time beyond that suggested by Mr. Mangels would be warranted and that the Board's letter should be specific in that respect. Accordingly, it was understood that the proposed letter would be appropriately amended.

A copy of the letter sent to President Mangels pursuant to this decision by the Board is attached as Item No. 6.

Denver Branch building site. Governor Shepardson referred to receipt by Chairman Martin of a copy of a letter sent by Mr. Elwood M. Brooks, Chairman of the Board of The Central Bank & Trust Company, Denver, Colorado, to First Vice President Koppang of the Federal Reserve Bank of Kansas City under date of September 26, 1958. In this letter Mr. Brooks cited a number of points that he felt tended to cast doubt on the desirability of constructing a new building for the Denver Branch on the site approved by the Board of Directors of the Kansas City Reserve Bank and concurred in by the Board of Governors. Mr. Brooks also charged that sufficient opportunity had not been provided for Denver bankers and other interested parties to make representations concerning the matter.

Governor Shepardson said that he had talked by telephone with Mr. Koppang and had learned that all of the parcels comprising the
proposed site were now under option at a total cost below the maximum of $750,000 authorized by the Board of Governors. However, because of the inability of the real estate agent to complete all necessary papers, the options had been extended from September 30 to October 31.

Governor Shepardson said he also talked with Reserve Bank Chairman Hall, who was in Mr. Koppang’s office, and that Mr. Hall expressed concern about the charges in the letter received from Mr. Brooks. In order that they might be explored, Mr. Hall had called a special meeting of the Reserve Bank’s building committee for October 8. The matter then would be taken up with the Bank’s Board of Directors at its meeting the following day and the Board of Governors was to be kept advised of developments. In the meantime Governor Shepardson was circulating to the other members of the Board the copy of the letter from Mr. Brooks which had been received at the Board’s offices.

The meeting then adjourned.

Secretary’s Notes: As recommended in a memorandum from Mr. Masters, Director, Division of Examinations, dated September 25, 1958, Governor Shepardson approved on behalf of the Board on September 26 leave without pay for John Lovejoy, Assistant Federal Reserve Examiner, for the period October 16 through November 6, 1958, in order that Mr. Lovejoy might continue a CPA review course.

Pursuant to the recommendations contained in memoranda from Mr. Kelleher, Director, Division of Administrative Services, Governor Shepardson today approved on behalf of the Board acceptance
of the resignations of the following persons in that Division, effective the dates indicated:

Thethonia D. Feild, Cafeteria Helper, effective September 19, 1958.


[Signature]
Assistant Secretary
Mr. E. O. Latham, First Vice President,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Latham:

Reference is made to your letter of September 17, 1958, enclosing a letter from The Merchants National Bank of Boston relative to a proposal to merge the common trust funds established and maintained under the provisions of Section 17(c) of Regulation F by The Merchants National Bank of Boston and the Day Trust Company prior to their merger on December 31, 1956. It is understood that since the merger of the banks the common trust funds in question have been administered separately but that in the interest of economy, service, and administrative convenience, management is considering the merger of these two funds on October 31, 1958, under the "Plan" of The Merchants National Bank of Boston, and the member bank seeks to learn whether the Board of Governors will interpose any objection to such action.

With regard to the proposed merger of the two common trust funds, it is understood that all necessary actions will be taken to insure equitable treatment of beneficiaries of all participating trusts of both common trust funds. It is also understood that the member bank has assured itself that there would be no objection to such a merger by the State banking authorities; that there would be no unfavorable State or Federal tax consequences from the action contemplated; that counsel for the bank will review all actions taken or required and give an opinion as to their legality; that the merger transactions, including the various assets and participations in the funds, will be supervised and audited by an independent auditing firm; that both "Plans" will be appropriately amended to authorize the merger and the termination of the Day Trust Company fund; and that all costs incurred for counsel fees or auditors' fees in connection with the merger will be borne by the member bank. It is also noted that the bank will give advance notice of the proposed merger of the two funds to all persons entitled to the audit
reports of the respective funds; that trusts in which co-trustees or beneficiaries register objection to the merger will be withdrawn prior to its consummation; and that the program of merger provides that each participating trust will receive all of the principal and income to which it is entitled immediately prior to the merger.

With respect to investments of the merged funds, it is noted that a review is to be made to ascertain that the investments held by the continuing fund will conform to the limitations of Section 17(c)(5) of Regulation F and of applicable provisions of Massachusetts law. We would assume also that an appropriate review would be made to determine that the merged fund contains no investments in which any of the participating trusts could not lawfully be invested.

Based upon the information which the member bank has furnished concerning the actions contemplated with regard to the proposed merger, and provided that our several assumptions with respect to it are correct, the merger would not appear to involve any conflict with the provisions of Section 17 of Regulation F and, therefore, the Board would have no objection to the proposed merger of these two common trust funds.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
For some time past, Señor Roberto Ramírez, President of the Central Bank of Honduras, has been urging me to visit his institution. As is indicated in the attached extract from a letter dated July 11, 1958, this invitation was renewed very strongly by Sr. Ramírez when he was in Washington a few months ago; and, as is also indicated in the appended extract, Sr. Ramírez then confirmed "in writing, and with the authorization of the Board of our Bank" the invitation that he had previously extended so many times orally.

Sr. Ramírez is very highly respected, not only among Latin American central banks, but also by the U. S. Government agencies with which he has had dealings. It is also the fact that the cordial relationship that has always existed between the Central Bank of Honduras and the Federal Reserve System was cemented especially by the mission, headed by Mr. Frederick L. Deming (now President of the Federal Reserve Bank of Minneapolis), which was arranged under the auspices of the Board of Governors. I myself, however, have never visited the Central Bank of Honduras; nor, so far as I know, has it been visited by any member of the staff of the Board of Governors since 1943, when Mr. Robert Triffin, then a member of the Board's staff, served as a member of a special U. S. Government mission headed by Mr. E. M. Bernstein, then of the U. S. Treasury.

I do feel, therefore, that, if the Board will authorize me to accept the invitation, I should do so. From the beginning, however, I have told Sr. Ramírez of my hope that my visit to Honduras might be combined with a visit to at least two other central banks in Central America. For a time, it appeared that a particularly convenient occasion for such a combined visit might be provided by a meeting of all of the central banks of Central America in Tegucigalpa, Honduras; and I asked Sr. Ramírez to wait for an answer to his invitation until that possibility might be clarified. As is indicated, however, in the attached letter from Sr. Ramírez dated September 11, 1958, that particular occasion has been postponed.

In the meantime, Sr. Carlos J. Canessa, President of the central bank of El Salvador, and Sr. Gustavo Miron, President of the central bank of Guatemala, both of whom had learned of the possibility that I might be visiting Central America, have written to me inviting me to visit their respective institutions.
I believe that a visit of this kind is definitely in the interests of maintaining proper relations between the Board of Governors and other central banking institutions. The total time consumed by a visit to the central banks of Honduras, El Salvador, and Guatemala should not exceed twelve days, including travel time.

I therefore request that I be authorized to accept the invitations of the three central banks indicated, and that I be granted transportation expense and per diem at the rate listed in the Standardized Government Travel Regulations. The travel, if approval is granted by the Board, would be undertaken beginning on the third of November 1958.
International Banking Corporation,
55 Wall Street,

Gentlemen:

In accordance with the request and on the basis of the information submitted in your letters of August 14 and September 3, 1958, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants its consent to the establishment of branches in Capetown, Durban, and Port Elizabeth, South Africa, by The First National City Bank of New York (South Africa) Limited, Johannesburg, Union of South Africa, as soon as feasible after the opening of the bank in Johannesburg. It is understood that the approval of the South African authorities will be obtained prior to the establishment of the branches.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, (1) when establishment of the branches has been approved by the authorities in South Africa and (2) when the branches are established and opened for business, furnishing information as to the exact location of the branches.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Mr. Henry O. Koppang,
First Vice President,
Federal Reserve Bank
of Kansas City,
Kansas City 6, Missouri.

Dear Mr. Koppang:

Reference is made to your two letters of September 11, 1958, advising of rate increases and changes in benefits provided under the new hospitalization insurance contracts at the Oklahoma City and Omaha branches.

The Board of Governors approves the additional expenditure involved in providing coverage under these new contracts.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Dear Sir:

This concerns the memorandum dated June 17, 1958, submitted by Mr. Erickson, Chairman of the Conference of Presidents, to the Board of Governors regarding the use of Federal Reserve funds for nonofficial entertainment of persons not in the employ of the Federal Reserve Banks. It will be recalled that this memorandum was submitted following discussion of this matter at the Joint Meeting of the Board and the Presidents on June 17.

The memorandum stated that "it is the unanimous opinion of the Presidents that inclusion of wives and husbands of Federal Reserve employees at appropriate Bank functions, such as A.I.B. conventions, Federal Reserve Bank annual dinners, Christmas parties and similar affairs, is an integral, necessary and highly desirable part of the Reserve Banks' personnel relations programs." The memorandum further stated that "the Presidents feel that a prohibition of this type of expenditure would not only work hardships on personnel activities but would restrict the Reserve Banks in filling their proper roles in the banking community."

In line with the general views set forth with regard to "Discretionary Expenditures" in Item #3187 of the Federal Reserve Loose-Leaf Service, the Board believes that due consideration should be given to the public interest aspect of the Federal Reserve System when use of Federal Reserve funds for nonofficial entertainment of persons not in the employ of the Federal Reserve Banks is contemplated, and that expenditures of this nature should be limited to those which can be justified by the benefits received by the Reserve Bank and the Reserve System.

In the case of annual dinners, Christmas parties and similar affairs given by a Reserve Bank for its own employees, the Board agrees that the inclusion of the wives and husbands of the Bank's
employees (and guests of unmarried employees) is a necessary and desirable part of the personnel relations program, and results in benefits to the Bank concerned.

The Board is of the opinion, however, that any benefits derived from dinner parties given outside of the Bank for delegates from other Federal Reserve Banks, and their wives, attending conventions of organizations such as the American Institute of Banking would not be sufficient to justify the expenditure.

Sincerely yours,

C. Canby Balderston,
Vice Chairman.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
October 2, 1958

Mr. H. N. Mangels, President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Mangels:

Reference is made to your letter of September 3, 1958, addressed to Chairman Martin, concerning a stock brokerage account maintained by Mr. Seymour Miller, an economist employed in your Research Department. A question of the propriety of Mr. Miller's maintaining this account was raised in view of the large debit balance and in the light of the principle stated in the Board's letter S-1018, dated March 24, 1948, that "it is important that officers and employees of a Federal Reserve Bank refrain from being placed in any position which might embarrass the Federal Reserve Bank in the conduct of any of its operations or result in any questions being raised as to the independence of their judgment or their disinterestedness in the discharge of their official responsibilities or their ability to perform satisfactorily all of the duties of their positions."

It is noted from your letter that Mr. Miller does not maintain an active trading account but buys stock for investment purposes, that the stocks he currently owns do not include the capital stock of any bank or other financial institution, and that he has never traded in Government securities. It is noted, also, that Mr. Miller will dispose of certain of his holdings sufficient to pay off the indebtedness incident to the brokerage account, but that he would like to make such disposition gradually over a period running through the first two months of 1959.

In view of the length of time the brokerage account has been in existence and your statement that it is maintained for investment rather than speculative purposes, the Board agrees with your judgment that the program suggested by Mr. Miller to accomplish the intended liquidation is satisfactory, with the definite understanding that the matter will be finally resolved no later than the end of next February.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.