

Minutes for January 23, 1959

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</u>	_____
Gov. Szymczak	x <u>MS</u>	_____
Gov. Mills	x <u>S</u>	_____
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	x <u>CB</u>	_____
Gov. Shepardson	_____	x <u>CS</u>

Minutes of the Board of Governors of the Federal Reserve System  
on Friday, January 23, 1959. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Marget, Director, Division of  
International Finance  
Mr. Hackley, General Counsel  
Mr. Masters, Director, Division of  
Examinations  
Mr. Farrell, Director, Division of  
Bank Operations  
Mr. Furth, Associate Adviser, Division  
of International Finance  
Mr. Solomon, Assistant General Counsel  
Mr. Chase, Assistant General Counsel  
Mr. Smith, Assistant Director, Division  
of Examinations  
Mr. Kiley, Assistant Director, Division  
of Bank Operations  
Mr. Hill, Assistant to the Secretary

Discount rates. Unanimous approval was given to telegrams to the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Chicago, St. Louis, and Dallas approving the establishment without change by those Banks on January 22, 1959, of the rates on discounts and advances in their existing schedules.

Increase in resources of International Monetary Fund and International Bank (Item No. 1). A draft of suggested letter to the Bureau of the Budget in response to its request for comment on a proposed bill submitted by the Treasury which would authorize United States participation

1/23/59

-2-

in enlarging the resources of the International Monetary Fund and the International Bank for Reconstruction and Development had been distributed to the Board with a memorandum from Mr. Solomon dated January 22, 1959. The letter would state that the Board favored enactment of such legislation.

Following a brief discussion, the Board approved unanimously a letter in the form attached hereto as Item No. 1.

Messrs. Marget and Furth then withdrew from the meeting.

Clayton Act question involving Mr. Kirkman (Item No. 2).

In 1953, The Boardwalk National Bank, Atlantic City, New Jersey, which contemplated the establishment of a branch in Somers Point, raised with the Federal Reserve Bank of Philadelphia the question whether, if such branch were established, section 8 of the Clayton Act and the Board's Regulation L would be applicable to the further service of Mr. Elwood F. Kirkman as both an officer and director of Boardwalk National and an officer and director of The National Bank of Ocean City, Ocean City, New Jersey. Under date of March 16, 1953, the then Counsel for the Federal Reserve Bank wrote a letter to Mr. Kirkman expressing the opinion that Somers Point and Ocean City were not contiguous or adjacent within the meaning of Section 2(d)(5) of Regulation L because they were separated by marshland and navigable water over a distance of about three miles. Accordingly, the branch at Somers Point was established. In 1958, it came to the attention of the Reserve Bank that Ocean City and Somers

1/23/59

-3-

Point actually shared a common boundary for a distance of approximately 4,800 feet, the joint boundary passing through the center line of a bridge spanning the ship channel running between the two cities. When the matter was taken up with Mr. Kirkman by the Reserve Bank, he expressed a desire to meet with representatives of the Board to review the circumstances of the case, and a meeting with members of the Board was arranged and held yesterday afternoon.

At that meeting Mr. Kirkman emphasized that the branch had been established in Somers Point only after receipt of a written opinion from an officer of the Federal Reserve Bank of Philadelphia, and if the opinion had been different the decision of Boardwalk National might have been to establish the branch in a nearby community where the question of contiguity would not have arisen. With the opinion in hand, however, the bank proceeded to invest money in the construction of branch premises at Somers Point and over the years had built up a substantial amount of business at that location. Mr. Kirkman also stressed that the waterway separating Ocean City and Somers Point was under the control of the State of New Jersey, that the two cities had distinctly different characteristics, and that there was no significant flow of commerce between them. The long history of his association with the banking business in Ocean City and the substantial stock ownership of his family in The National Bank of Ocean City would, he contended, create a substantial hardship if he were to withdraw from active participation in the affairs

1/23/59

-4-

of the Ocean City bank. For these and other reasons, he expressed the hope that the Board would not disregard the equities of the matter, especially in view of the fact that the decision appeared to hinge on a technical interpretation as to whether the cities of Ocean City and Somers Point should be regarded as contiguous. In support of his statements, Mr. Kirkman submitted for the Board's files certain maps and photographs tending to indicate that in fact the two cities concerned were separate and distinct communities, connected only by the long bridge spanning marshland and navigable water.

At this meeting Mr. Hackley reviewed the facts of the case and cited various rulings of the Board dating back to 1935 which related to the question of contiguity and adjacency and seemed to have pertinence to consideration of the question raised by Mr. Kirkman. In summarizing these rulings, he brought out not only the similarities between them and the present case but also distinctions that might be drawn. With respect to the statute, he pointed out that a degree of administrative leeway was available under which the Board conceivably could amend Regulation L to exempt a situation such as was involved in the Kirkman matter. He went on to say, however, that the preparation of a general amendment of this character might involve substantial difficulties and that another possible course would be for the Board to consider whether it wished to grant a specific exception with respect to the service of Mr. Kirkman on the grounds of the equities involved in his case.

1/23/59

-5-

Chairman Martin indicated that he would be disposed to interpose no objection to Mr. Kirkman's continued service with the Atlantic City and Ocean City banks because of the circumstances of the particular case. It would be possible to follow that course in this instance, he felt, and yet reach a different conclusion in some future case not presenting the same questions of background and equity.

Governor Robertson concurred, adding that he felt the Board should not take a position that would interfere with a ruling of general applicability. Accordingly, he would make an exception specifically for Mr. Kirkman, one that would not constitute a general precedent or, in fact, apply to anyone else who subsequently might serve as a director or officer of the two institutions concerned.

Mr. Hackley expressed agreement with that view. He explained that it had been his intention simply to point out that it might be inadvisable for the Board to take the position that the cities of Ocean City and Somers Point were not contiguous. In Mr. Kirkman's case, he felt that there would be justification in interposing no objection.

After the other members of the Board had indicated that they likewise would be favorable to making an exception with regard to the service of Mr. Kirkman, Governor Mills suggested that in spirit the pertinent provisions of the Clayton Act appeared to be aimed at contiguous communities of large population comprising essentially a single metropolitan

1/23/59

-6-

area. He raised the question whether it would not be legally possible to draw a distinction between that kind of situation and one where the areas concerned were more sparsely populated, with the communities separated by a distance of a mile or more.

Mr. Hackley responded that he thought it would be possible for the Board to provide additional exceptions in Regulation L, perhaps to the effect that the provisions of the Regulation were not applicable where a certain distance between cities was involved even though the cities technically were contiguous. The law, he pointed out, was not phrased in terms of specific applicability where cities are contiguous but rather in terms of exceptions where cities are not contiguous. Therefore, it would seem possible to provide further exceptions by administrative regulation if the Board should so desire.

After further discussion, it was agreed unanimously to interpose no objection, based on the provisions of the Clayton Act, to Mr. Kirkman's continuing as an officer and director of the banks in Atlantic City and Ocean City, even with the continued operation by the former bank of its Somers Point branch. A copy of the letter sent to the Federal Reserve Bank of Philadelphia pursuant to this action is attached as Item No. 2.

Mr. Chase then withdrew from the meeting.

Coin-wrapping service. A memorandum dated December 29, 1958, from Mr. Leonard, former Director of the Division of Bank Operations, presenting background and current information for use in reaching a

1/23/59

-7-

determination of position with respect to the furnishing of wrapped coin by Federal Reserve Banks to member banks, had been distributed to the Board. The memorandum pointed out that this matter was most recently considered by the Conference of Presidents in October 1955, at which time there was a diversity of views. Four Banks wrapping coin favored continuance; two Banks wrapping coin favored continuance but indicated willingness to cease providing the service if that were general System policy; three Banks wrapping coin favored discontinuance but indicated that they would continue to wrap coin if others were also doing so; and the three Banks not wrapping coin were opposed to the service. At the joint meeting with the Board on October 4, 1955, the Presidents were advised that the Board would give further study to the matter, and it was then referred to the Division of Bank Operations. Since that time, Atlanta had discontinued the service and two other Banks (New York and San Francisco) were understood to have aligned themselves with the group favoring discontinuance of the operation if done as a matter of System policy. At present, three of the four Banks favoring continuance of the service accounted for approximately two-thirds of the total volume of wrapped coin.

From the standpoint of System policy, the memorandum listed as alternative possibilities: (1) discontinuance of furnishing wrapped coin after due notice to the member banks receiving such service;



1/23/59

-8-

(2) permitting each Reserve Bank to follow the policy it felt best suited for its district, or (3) requiring every Reserve Bank to furnish wrapped coin to some degree. After citing arguments for and against the service, the memorandum suggested that in view of changes in the attitude or practices of some Banks since 1955 and changes in the membership of the Presidents' Conference, the Board might wish to obtain the views of the Conference as now constituted. If the Board's conclusion should be to continue to leave to each Reserve Bank the decision whether to furnish wrapped coin, it was suggested that the computation of costs of the operation be reviewed and placed on a more uniform basis, and that the operation at each Bank be made essentially self-sustaining.

At the Board's request, Mr. Farrell reviewed the current practices of the respective Reserve Banks. He also reported a recent telephone conversation with President Bryan of the Federal Reserve Bank of Atlanta, who expressed the hope that the Board would not leave the decision to the discretion of the individual Banks and spoke of considerable pressure being exerted on the Atlanta Bank to reinstate the service.

Governor Szymczak raised the question whether this was not an area of operations where it would be desirable to establish uniformity of practice, recognizing that the actual achievement of uniformity might take some period of time. After referring to the pressures exerted and other difficulties encountered when the practice varied from one district

1/23/59

-9-

to another, he commented that the public interest policy of the System seemed to call for performing all of the services that could be considered consistent with such a policy.

Mr. Farrell then expressed the view that if uniformity were considered desirable the less damaging approach from the standpoint of public relations might be to have all of the Reserve Banks provide coin-wrapping service, particularly in view of the fact that the service had been provided extensively over a period of time in three Federal Reserve districts. In response to an inquiry by Governor Balderston regarding charges for the service, he noted that a charge had been customary at all Federal Reserve Banks except New York, which provided only a limited service to smaller member banks. While the type of service rendered, the extent of charges made, and the computation of costs had not been uniform, he knew of no Bank other than New York that had taken the position that wrapped coin should be provided on a free basis.

Governor Robertson commented that the effective operation of the Federal Reserve System called for decentralization of responsibility to as full an extent as possible. This appeared to be one area, he said, where decentralization of the decision-making process was feasible and consequently an area where in his opinion the boards of directors of the respective Banks should make the decision as to whether or not

1/23/59

-10-

coin-wrapping service should be provided. On the other hand, he felt that it was not fair to member banks for one Reserve Bank to provide such a service on a free basis and for others to make a charge. Therefore, he would be inclined to ask the Presidents to determine a uniform rate that would be applied by those Reserve Banks whose directors reached the decision that wrapped coin should be furnished.

Governor Mills said he did not believe personally that the Reserve Banks should engage in the coin-wrapping function. However, he realized that this was an established practice in a number of districts, and for that reason, he said, he would join Governor Robertson in the view that the individual Reserve Banks should make the decisions. Where districts were contiguous, he assumed that it would be possible for the Reserve Banks concerned to reach a meeting of the minds. In a further comment, he said that he would rather think of the Reserve Banks rendering better service than adding to the list of free services.

Chairman Martin inquired at this point regarding the arguments that could be made for uniformity of practice, and Governor Szymczak responded that the coin-wrapping question had been a matter of debate for many years, although the questions raised concerning it were not always the same each time the subject came up. There had been marked differences of opinion among the Reserve Banks which the Banks had never been able to resolve among themselves. It would appear, he said,

1/23/59

-11-

that in some way it should be possible to reach a decision as to whether the service should be provided and, if so, the extent of the charges, if any, that should be made for it. On the point of appropriate Reserve Bank services, he noted that one of the reasons for the establishment of the Federal Reserve System was to provide certain services to the member banks, and one of the principal services that was contemplated had to do with making currency readily available. He had no qualms, he said, regarding the possibility of criticism from various parties, including correspondent banks, if it should be the decision to provide the coin-wrapping service because, as he had pointed out, this would be a service related to one of the fundamental reasons for which the System was established.

There followed discussion concerning the apparent inequity arising from lack of uniformity in wrapped-coin charges as between different Federal Reserve Banks, and also with regard to the difficulties that had been encountered in arriving at a uniform basis of cost determination. The discussion touched upon problems that might arise in adjoining districts due to variations in practice and the question whether the furnishing of wrapped coin tended to be economically wasteful from the standpoint of increasing the flow of coin shipments between a Reserve Bank and its member banks.

1/23/59

-12-

Governor Balderston then stated that he too had arrived at the conclusion that it would be appropriate to leave to the directors of each Reserve Bank the decision as to whether they would or would not provide wrapped coin. If the directors of a Bank should resolve that question affirmatively, he agreed with Governor Robertson that it would be desirable to move in the direction of a uniform charge.

Further comments by members of the Board indicated a consensus that the charge made should be such as to provide reimbursement for substantially the costs involved and that the development of a basis of more nearly uniform charges should be a matter for determination by the Presidents' Conference. Accordingly, it was decided to advise the Chairman of the Conference of the Board's conclusion that the decision as to whether the coin-wrapping service should be provided by an individual Reserve Bank should be left to the discretion of the directors of the Bank concerned; that to the extent individual Banks might decide to continue or adopt the practice there should be a uniform approach with respect to the rates charged for that service; and that the Board would like to have the Conference of Presidents review the basis for computing costs of the operation with a view to placing the charges on a more nearly uniform basis which would secure reimbursement for substantially the costs involved.

1/23/59

-13-

Examination of the Federal Reserve Bank of Boston. Mr. Smith commented regarding the examination of the Federal Reserve Bank of Boston as of October 17, 1958, the report on which had completed circulation to the members of the Board. Among the matters mentioned by Mr. Smith were the status of the Bank's one outstanding section 13b loan, the availability of working space, and management factors.

At the instance of Governor Mills, there followed comments on the reasons for the extent of unprocessed cash items found on hand as of the date of examination and on the Reserve Bank's record in the handling of transit items, which it was stated had shown improvement over the past year or so.

Governor Mills then noted that the confidential memorandum on the audit function disclosed the practice of attendance by the President and First Vice President of the Bank at meetings of the directors' Audit Committee, which led him to inquire about the desirability of such a practice from the point of view of the position of the General Auditor.

This comment by Governor Mills led to a general discussion with regard to the prevalence of such practice at the respective Federal Reserve Banks and the relationship of the General Auditor of a Reserve Bank to the President of the Bank and the Board of Directors. Clarification of such relationships was deemed to be of sufficient importance to

1/23/59

-14-

warrant discussion with the Conference of Chairmen of the Federal Reserve Banks and also with the Presidents' Conference. Accordingly, it was agreed that the subject would be taken up at the next joint meeting of the Board and the Presidents.

Messrs. Farrell, Smith, and Kiley then withdrew from the meeting and Messrs. Thomas, Economic Adviser to the Board, Molony, Special Assistant to the Board, Shay, Legislative Counsel, and Noyes, Adviser, Division of Research and Statistics, entered the room.

Letter to Senator Fulbright. Pursuant to the understanding at the meeting on January 5, 1959, there had been distributed to the members of the Board yesterday a draft of letter proposed to be sent to Chairman Fulbright of the Senate Banking and Currency Committee in response to his letter dated December 23, 1958, with which he transmitted, with a request for comment, a letter from Chairman McClellan of the Senate Permanent Subcommittee on Investigations regarding the Subcommittee's preliminary inquiry into allegations that there had been leakages of certain Board policy decisions prior to their public announcement.

Following a review of the draft, during which a number of suggestions were made for changes in the interest of preciseness and emphasis, it was understood that a revised draft of letter reflecting those changes agreed upon at this meeting would be prepared for the Board's consideration.

1/23/59

-15-

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum dated January 23, 1959, from Mr. Noyes, Adviser, Division of Research and Statistics, Governor Balderston, acting in the absence of Governor Shepardson, today approved on behalf of the Board an increase in the basic annual salary of Daviette Clagett Hill, Statistical Clerk in that Division, from \$4,040 to \$4,190, effective January 25, 1959.

A handwritten signature in cursive script, appearing to read "Kenneth J. ...", is written over a horizontal line. Below the line, the word "Secretary" is printed in a serif font.

Secretary



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

Item No. 1  
1/23/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 23, 1959

Mr. Phillip S. Hughes,  
Assistant Director for  
Legislative Reference,  
Bureau of the Budget,  
Washington 25, D. C.

Dear Mr. Hughes:

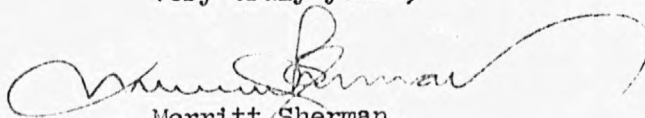
This refers to your legislative referral memorandum of January 21, 1959, regarding the draft bill (submitted by the Treasury Department) "To amend the Bretton Woods Agreements Act, and for other purposes."

The bill would authorize the United States Governor of the International Monetary Fund to request and consent to an increase of \$1.375 billion in the United States quota of the Fund. It would also authorize the United States Governor of the International Bank for Reconstruction and Development to vote for an increase in the capital stock of the Bank and to subscribe on behalf of the United States for additional shares of such stock in the amount of \$3.175 billion. In addition, the bill would authorize the Treasury to make the payments necessary to carry out these commitments. These proposals have already received the approval of the National Advisory Council on International Monetary and Financial Problems.

It is understood that 25 per cent of the proposed increase in the United States quota of the Fund would be paid in gold and that the remainder would, in effect, be met for the present through the issuance to the Fund of special non-interest-bearing obligations of the United States. It is also understood that the subscription to the stock of the Bank would, in effect, not be payable except as might become necessary.

The Board favors enactment of the proposed bill.

Very truly yours,

  
Merritt Sherman,  
Secretary.

411

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

Item No. 2  
1/23/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 28, 1959.



Mr. Joseph R. Campbell,  
Vice President,  
Federal Reserve Bank of Philadelphia,  
Philadelphia 1, Pennsylvania.

Dear Mr. Campbell:

Reference is made to your letter of December 30, 1958, requesting a determination by the Board of Governors as to the applicability of section 8 of the Clayton Act to the service by Mr. Elwood F. Kirkman as an officer and director of The Boardwalk National Bank, Atlantic City, New Jersey, and an officer and director of The National Bank of Ocean City, Ocean City, New Jersey.

A reply to your letter was withheld at your request, in order to give Mr. Kirkman an opportunity to discuss the matter with representatives of the Board, and pursuant to appointment Mr. Kirkman discussed the matter with the members of the Board on January 22, 1959.

It appears that Mr. Kirkman had discussed the matter with representatives of the Federal Reserve Bank at various times and that, under date of March 16, 1953, the then General Counsel for the Federal Reserve Bank wrote him a letter reviewing the question and reaching the conclusion that, since Somers Point and Ocean City are separated by marshland and navigable water over a distance of about three miles, they were not contiguous or adjacent within the meaning of section 2(d)(5) of Regulation L, and that, therefore, in his opinion, Mr. Kirkman's service as President and Director of The Boardwalk National Bank, with a branch to be located at Somers Point, and his service as a director of The National Bank of Ocean City would not violate the Clayton Act. The branch was thereafter established at Somers Point and is still in operation in quarters especially constructed to house it.

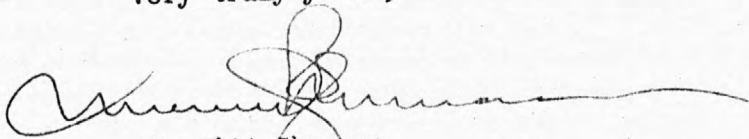
Federal Reserve Bank  
of Philadelphia

-2-

In 1958 the matter was reexamined by the Federal Reserve Bank, and it was discovered that the corporate limits of Ocean City and Somers Point coincide for a length of approximately 4800 feet under the navigable waters separating the two points. Accordingly, under date of September 9, 1958, the Vice President of the Reserve Bank wrote Mr. Kirkman quoting from an opinion of the present Counsel for the Bank to the effect that for this reason the above exception is not applicable and Mr. Kirkman's service of the two banks is unlawful.

In view of the interpretation of the word "contiguous" contained in the footnote to section 2(d)(5), it appears that the opinion of Counsel for the Bank in 1958 is technically correct. However, in view of the fact that the branch at Somers Point was established in a building constructed for the purpose, and has been in operation since 1953 in reliance on the advice given Mr. Kirkman by the then Counsel for the Reserve Bank, the Board, because of the special circumstances, will interpose no objection based on the provision of the Clayton Act to Mr. Kirkman's continuing as an officer and director of both banks.

Very truly yours,



Merritt Sherman,  
Secretary.