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. Mills  
Gov. Robertson  
Gov. Balderston  
Gov. Shepardson  
Gov. King
Minutes of the Board of Governors of the Federal Reserve System

on Thursday, July 9, 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. Shepardson
Mr. King

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Molony, Special Assistant to the Board
Mr. Smith, Assistant Director, Division of Examinations
Miss Hart, Assistant Counsel

Discount rates. The establishment without change by the Federal Reserve Banks of Kansas City and San Francisco on July 8, 1959, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Definition of "carrying" (Item No. 1). Unanimous approval was given to a letter to The National City Bank of Evansville, Evansville, Indiana, relating to the definition of the term "carrying" as used in the Board's Regulation U. A copy of the letter, a draft of which had been circulated to the members of the Board prior to the meeting, is attached as Item No. 1.

Miss Hart then withdrew from the meeting and Mr. Noyes, Adviser, Division of Research and Statistics, entered the room.
Government securities market study (Item No. 2). Attached as Item No. 2 is a memorandum dated July 7, 1959, from Mr. Young, Director, Division of Research and Statistics, recommending arrangements for publishing the Treasury-Federal Reserve study of the Government securities market at a cost not to exceed $12,000. Copies of the memorandum had been distributed to the members of the Board prior to this meeting.

Following comments by Governor Shepardson in support of the recommendations contained in the memorandum, question was raised regarding the response that might be given if it should be noted that the entire cost of publishing the joint study was being borne by the Federal Reserve. The suggestion by the Chairman, with which there was agreement, was that the response to any such inquiry should be in terms that the Federal Reserve would have wanted to make the study even if the Treasury had not desired to join in it. The Federal Reserve welcomed and needed the help of the Treasury, but it would have undertaken the study in any event.

Thereupon, the recommendations contained in Mr. Young's memorandum were approved unanimously.

Use of Federal Records Center. There had been circulated to the members of the Board a memorandum from Mr. Sherman dated June 25, 1959, recommending that the Board authorize arrangements with National Archives for use of the Federal Records Center in Alexandria, Virginia,
for keeping such noncurrent records of the Board as in the judgment of the Secretary of the Board and the head of the interested division could appropriately be stored outside the Board's building. This recommendation, the memorandum noted, had the concurrence of both the Legal Division and the Board's Controller.

Commenting in support of the recommendation, Governor Shepardson noted that the use of a Federal Records Center for storage of certain classes of Board records had been considered at times in the past, and that attention again had been drawn to the availability of this service in connection with the recent study by National Archives of the Board's recordkeeping procedures. In the past, he commented, there apparently had been some feeling of uncertainty as to whether the Board should avail itself of these facilities, offered on a cost-free basis by General Services Administration to Federal agencies. However, Records Center services were available to all agencies of the Government, and he was not inclined to feel that there would be any inadvisable involvement in the use of them.

Governor Shepardson also pointed out that question had been raised by the staff whether certain machine tabulating cards now stored in leased space outside the Board's building could not be placed in the Federal Records Center and that representatives of National Archives had indicated willingness to accept such cards for safekeeping.
Accordingly, he planned to authorize the making of arrangements to store such cards at the Federal Records Center in Alexandria if the Board approved the recommendation contained in Mr. Sherman's memorandum. He added that other phases of the report submitted by National Archives at the conclusion of its study of the Board's record-keeping procedures were under review in the Secretary's Office and that recommendations would be made by that Office.

Further discussion brought out that the Federal Reserve Banks had been using Federal Records Centers throughout the country for some time for the storage of fiscal agency records and that records of the Board sent to the Federal Records Center in Alexandria would be placed there under appropriate destruction schedules agreed upon between the Board and National Archives.

Thereupon, the recommendation contained in Mr. Sherman's memorandum was approved unanimously.

Secretary's Note: Pursuant to this action, Governor Shepardson approved later in the day the request contained in a memorandum from the Division of Administrative Services dated March 17, 1959, that it be authorized to make the necessary arrangements for storage of machine tabulating cards at the Federal Records Center in Alexandria. This memorandum contemplated that liaison would be maintained with National Archives by the Board's Records Section, a unit of the Secretary's Office.
Examination of Federal Reserve Bank of Atlanta. There had been circulated to the members of the Board the report and related memoranda having to do with the examination of the Federal Reserve Bank of Atlanta made as of April 27, 1959.

At the request of the Board, Mr. Smith commented on various aspects of the examination and the report thereon. His initial remarks related to changes in the form of examination report, such changes having been made particularly for the convenience of readers and to eliminate nonessential material from the text of the report. He then proceeded to summarize a number of matters relating to the management, operations, and premises of the Reserve Bank.

The ensuing discussion was devoted principally to two items covered in the report of examination. The first of these involved the apparent disposition along with waste paper of unissued stock of Series E United States Savings Bonds having a face value of $27,150, said to have been returned to the Reserve Bank's head office by an issuing agent in boxes thought by the Reserve Bank to contain only the issuing agent's stationery and supplies. It was noted that a claim had been filed by the Reserve Bank with the Treasury Department for unissued stock credit, that the danger of having unissued savings bonds put to fraudulent use was minimized by absence of an issuing agent's validating stamp, but that it was not known with certainty
whether the unissued bonds actually had been included in the shipment of material sent to the Reserve Bank by the issuing agent or what the final disposition of the unissued bonds had been.

The second matter that was the subject of discussion related to the institution by the Reserve Bank of a "twilight" shift in its check collection department under an agreement with banks in Atlanta whereby checks drawn on country banks in the Atlanta zone were to be accepted until 7:00 p.m. Monday through Friday, credit being given on a one-day deferred basis. While the operation of the twilight shift on its present basis had had little effect on Reserve Bank costs, analysis by the examining staff indicated that it had resulted in an increase in float of approximately $3 million per day during April 1959.

In order that full information might be available for the Board's consideration, and in view of precedent aspects of the operation of the twilight shift in the check collection department, Governor Mills was requested to review the matters in question with President Bryan of the Federal Reserve Bank of Atlanta and report back to the Board.

Further discussion of the report of examination of the Atlanta Bank included a brief reference, in light of the contemplated New Orleans Branch building program, to the funds remaining available for such
programs under the current statutory limitation. It appeared that sufficient leeway was available to take care of the addition to the Oklahoma City Branch building, but it was not certain whether the statutory limitation would have to be increased to permit completion of the contemplated program in New Orleans. No funds had been allocated to the Denver Branch in view of the dormant status of that building program at this time, and the Division of Bank Operations had been informed that at some point plans were likely to be submitted for the Board's consideration with respect to a building program in Little Rock.

Governor Balderston reported having had a discussion recently with representatives of the Division of Examinations concerning certain aspects of the form of examination report. It was his understanding that the Division would give further thought to the matter and set forth its views in memorandum form, and the comment was made that it would be desirable to have such a memorandum presented for the Board's consideration.

Capital accounts of the Federal Reserve Banks. At the request of the Chairman, Mr. Farrell summarized the history and current status of the capital accounts of the Federal Reserve Banks. His report was based on a memorandum being completed for distribution to the members of the Board within the next few days.
Chairman Martin asked that each Board member study the memorandum carefully prior to further consideration of the subject matter by the Board. He noted that there had been on file with the Bureau of the Budget for some time a proposed bill that would compel the Federal Reserve Banks to pay 100 per cent of their current net earnings to the Treasury, and he had advised the Director of the Bureau that the Board would take the matter under study.

Bill to eliminate interest rate ceilings. Following a meeting in executive session yesterday which was attended by Chairman Martin, the House Ways and Means Committee had agreed to report a bill that would give the President authority to suspend for a two-year period the current maximum rate of interest on Treasury bonds and would permit increasing the rates of interest on United States Savings Bonds. According to the action taken by the Committee, the bill would be reported with an amendment which, although the exact wording was not yet available, would in effect express the sense of the Congress that the Federal Reserve System, while pursuing a sound monetary policy, should to the maximum extent consistent therewith assist in the efficient and economical management of the public debt by purchasing, when feasible, Government securities with varying maturities.
Chairman Martin related to the Board some of the developments leading up to the decision to report out the bill with the aforementioned amendment and then discussed the construction that might be placed upon such an amendment from the standpoint of the formulation of Federal Reserve policy. He added that he had made no comment publicly regarding his position with regard to the action taken by the Committee, and it was agreed that it would be appropriate for the Board to refrain from comment.

The Chairman observed that the bill, in the form reported by the Committee, would now go to the floor of the House of Representatives and that in about two weeks there would be hearings before the Senate Finance Committee. He suggested, therefore, that the members of the Board begin to consider what type of statement would be most appropriate for presentation to the Finance Committee. In this connection, Mr. Noyes pointed out that one possibility would be a statement of a general nature with respect to interest rates, while another possibility would be to direct the testimony particularly to the bill passed by the House of Representatives.

Mr. Noyes also brought out that the Board's staff was likely to be in receipt of requests from the offices of members of the House for assistance in the preparation of statements to be made when the bill reported by the Ways and Means Committee came up on the floor of
the House for debate. After discussion, it was agreed that the staff, in the event of receipt of such requests, should guard against supplying information of such a nature that it might be charged that the Federal Reserve, which had been given an opportunity to present its views before the Ways and Means Committee and would be given the same opportunity before the Senate Finance Committee, was injecting itself into the legislative proceedings in an improper manner. Some distinction, it was suggested, might be made between requests from members of the Ways and Means Committee and other members of the Congress.

The meeting then adjourned.

Secretary's Note: At the meeting on July 6, 1959, the Board agreed that if the directors of the Chicago Reserve Bank, at their meeting today, should act to approve appointments and salaries within the Reserve Bank as set forth in a draft letter transmitted by President Allen under date of June 29, 1959, and if Mr. Allen advised the Board's offices that he was sending the draft letter in final form, there would be sent to Mr. Allen a reply in the form of the draft that was before the Board at the July 6 meeting. Mr. Allen today informed the Board's Secretary that the Chicago directors had taken the contemplated actions and that he was therefore forwarding in final form the letter transmitted in draft on June 29. Accordingly, a reply was sent to Mr. Allen in the form attached as Item No. 3.
Mr. Kenneth O. Henke, Vice-President,
The National City Bank of Evansville,
Third and Main Streets,
Evansville 1, Indiana.

Dear Mr. Henke:

In your letter of June 16, 1959, you ask for a definition of the term "carrying" as used in the answer to question (1) (and elsewhere) in the Questions and Answers Illustrating Application of Regulation U issued by the Board of Governors on June 15, 1959. In the dictionary sense, of course, "purchasing" would refer to the acquisition of stock, and "carrying" to its continued ownership. As used in the regulation, however, the term is somewhat technical and your question can be answered most accurately by referring to illustrations.

The previous regulation defined a loan for the purpose of "carrying" stock as one "to enable the borrower to reduce or retire indebtedness which was originally incurred to purchase such a stock, or if made to "a broker or dealer, to carry such stocks for customers." Any loan falling within this definition would, of course, continue to be a regulated loan under the amended regulation issued on June 15, 1959. The amendments provide certain tests which are intended to help determine whether a loan is for the purpose of carrying stock. In general, where stock to be pledged as collateral for a loan has been held for less than a year, the loan should be treated as a regulated loan unless the lending officer can be satisfied that the purpose of the loan is not to replenish funds used to make the purchase of the registered stock offered as collateral.

Conversely, where the stock offered as collateral has been held for more than a year, this fact would create a presumption that the loan is not for the purpose of carrying the stock, and the fact that the borrower has a prior history of borrowing for the purpose for which he seeks the present loan, or that the expenses he intends to meet from the proceeds of the loan are of an unforeseen nature, would strengthen this presumption.
Mr. Kenneth O. Henke

All of these tests are, of course, implicit in section 221.3(b)(1) of Regulation U and reference should be made to the wording of that section in applying them. It is expected that lending officers will take all relevant circumstances into consideration in determining whether a particular loan is for the purpose of carrying registered stocks. However, if your bank should have questions as to any specific cases, it is suggested that you might wish to take them up with the Federal Reserve Bank of St. Louis.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman, Secretary.
It is recommended:

(1) That the Division of Research and Statistics and the Division of Administrative Services be authorized by the Board to make the necessary arrangements for publishing the Treasury-Federal Reserve Government Securities Market Study at a cost not to exceed $12,000.

(2) That the usual policy of complimentary distribution followed for similar publications be adopted. This would provide for furnishing the various parts or volumes on a complimentary basis to Federal Reserve Banks; Government departments, agencies and establishments (foreign and domestic) including central banks; educational institution libraries and teachers; public libraries; the press; persons who cooperated by supplying information for use in the study; and a limited number of addressees specified by the Division of Research and Statistics.

(3) That each part be sold for $1.00 per copy and that there be a special price of $2.50 for a set of the initial three books.

(4) That, in view of the very limited time allowed, authorization be given to have the printing work done by Judd and Detweiler, Inc., without calling for bids from other printing firms, but with the understanding that, after completion, we would be able to negotiate for any cost savings based upon a cost plus 12 percent gross profit agreement.

According to present plans, 2,500 copies of each of three parts or volumes of the Study would be published initially. The first pamphlet or volume would consist of about 125 pages of text; printed copies would be delivered by July 17. A second part would consist of about 200 pages; printed copies of this pamphlet would be available by August 17. A third part would consist of approximately 125 pages; printed copies would be available by early September.

We have been advised by Judd and Detweiler, Inc., that the cost of printing the three books, as now planned, would be approximately $8,110. Cost of printing the first part has been estimated at $2,325. However, in view of the very tentative nature of the estimates of the number of parts to be published and the number of pages of each part, and because we may require reprints, we suggest that authorization be granted for spending up to $12,000 for the entire project.
To: Board of Governors

All printing and publication costs would be charged against the Special Project - Treasury-Federal Reserve Government Securities Market Study. No regular budgetary provision was made for this study.
CONFIDENTIAL (FR)

July 9, 1959

Mr. Carl E. Allen, President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Allen:

The Board of Governors approves the following actions of your Board of Directors, as requested in your letter of July 9, 1959:

The appointment of Charles J. Scanlon as First Vice President effective September 1, 1959, to succeed Mr. Harris for the unexpired portion of the five-year term which began March 1, 1956, and the payment of salary to Mr. Scanlon at the rate of $22,500 per annum for the period September 1 through December 31, 1959.

The payment of salaries to the following officers of the Federal Reserve Bank of Chicago for the period September 1 through December 31, 1959:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Annual Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leland M. Ross</td>
<td>Chief Examiner</td>
<td>$14,000</td>
</tr>
<tr>
<td>Harry S. Schultz</td>
<td>Vice President</td>
<td>14,000</td>
</tr>
<tr>
<td>Carl E. Bierbauer</td>
<td>Assistant Vice President</td>
<td>11,500</td>
</tr>
<tr>
<td>John J. Capouch</td>
<td>Assistant Cashier</td>
<td>9,500</td>
</tr>
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The appointment of Vice President Hugh J. Helmer as an Examiner effective September 1, 1959.

The arrangement whereby Vice President Wilford R. Biercks, officer in charge of your Bank Examination Department, will retire October 1, 1959, and then be reemployed in his present position to October 1, 1960, with the title of Vice President, at a salary rate for the year he remains beyond retirement based upon the difference between his present annual salary rate and the pension portion of his retirement allowance.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.