

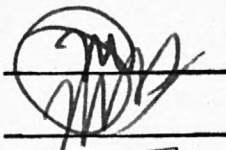

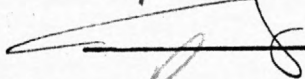
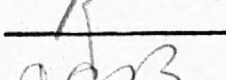
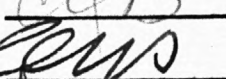
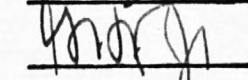

Minutes for October 5, 1959

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, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only 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 Monday, October 5, 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. Shepardson
Mr. King

Mr. Sherman, Secretary
Mr. Thomas, Economic Adviser to the Board
Mr. Young, Director, Division of Research and
Statistics
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Furth, Associate Adviser, Division of Inter-
national Finance
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Benner, Assistant Director, Division of
Examinations
Mr. Landry, Assistant to the Secretary

Items circulated or distributed to the Board. The following
items, which had been circulated or distributed to the members of the
Board and copies of which are attached to these minutes under the
respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to Girard Trust Corn Exchange Bank, Philadelphia, Pennsylvania, approving the establishment of a branch on the northeast corner of Comly Road and Roosevelt Boulevard.	1
Letter to The Chase Manhattan Bank granting permission to the Bank to increase its investment in the Chase Manhattan Overseas Corporation from \$1,000,000 to \$1,500,000, for Overseas Corporation to increase its investment in The Chase Manhattan Bank (South Africa) Ltd., and for the South African bank to establish a branch in Capetown.	2

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Item No.

Letter to Congressman Charles O. Porter commenting on a proposed bill relating to silver.

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In connection with Item No. 3, Chairman Martin noted that this was an interim reply and that it contemplated that after the staff had made a further study of the Congressman's questions regarding silver, a report would be submitted for the Board's consideration.

Mr. Goodman withdrew from the meeting and Messrs. Riefler, Assistant to the Chairman, and Hexter, Assistant General Counsel, entered the room.

Treasury-Federal Reserve study of the Government securities market. There had been distributed to the Board copies of a memorandum from Mr. Young dated September 28, 1959, presenting in outline form an inventory of areas for possible policy action growing out of the Treasury-Federal Reserve study of the Government securities market. In commenting on the memorandum, Mr. Young explained that copies had been made available to Federal Reserve staff members but not to Treasury representatives. It presented areas for policy action growing out of the joint study encompassing (a) administrative action not requiring legislation and (b) preparation of draft legislation for possible later consideration. Mr. Young then commented in some detail on that portion of the memorandum dealing with policy actions that might be taken without requiring legislation.

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The first item was a proposal for a joint letter from the Secretary of the Treasury and the Chairman of the Board to the New York Stock Exchange that would formally transmit the final study of "An Organized Exchange or a Dealer Market" together with joint statement of Secretary Anderson and Chairman Martin reporting the findings of the Government Securities Market Study to the Joint Economic Committee. The letter would call particular attention of Exchange officials to comments in the joint statement on the auction market problem and suggest that the Exchange might wish to pursue further its own studies of the subject and of the facilities for Government security transactions it might appropriately and economically provide. In commenting on this proposal, Mr. Young stated that the New York Stock Exchange had suggested that all Government securities transactions carried on by the System for account of member banks as well as for agencies of the Federal Government should be channeled through the Stock Exchange and that both the System and the Treasury should support the Stock Exchange Market for Government securities when the market threatened to become disorderly. This Stock Exchange presentation of the conditions under which the Exchange would be prepared to provide facilities for more effective transactions in the Government securities market within their purview by making them subject to an auction market appeared to be unacceptable.

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Chairman Martin requested comments and, in response to a question from Governor Shepardson, stated that this proposal had been presented by the Exchange to the Board and the Treasury and that he thought it desirable to close it off as soon as possible with a letter of the type proposed. Upon a question from Governor Robertson, the Chairman added that the next procedural step would be to discuss this proposal with the Federal Open Market Committee. The Chairman then said that, no objection having been indicated, it would be understood that the Board favored proceeding in accordance with the foregoing suggestion, and that the matter should next be taken up with the Open Market Committee.

Mr. Young then indicated that the first recommended step toward acquiring more adequate information about the Government securities market would be the early initiation by the Treasury of revised ownership survey figures, especially with regard to the present "other holder" category, and initiating a new program of statistics collection on all Government security dealings. He continued by referring to the proposal to prepare a manual of standard accounting practices for Government security dealers designed to facilitate the recording of needed current statistics and interim reporting of dealers' financial and earnings position on a standard basis. In this latter connection, he noted that there was great variation in the way in which Government security dealers kept their books and that two dealers in particular engaged in the practice of borrowing on long term by means of repurchase

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agreements with corporations for which they did not maintain on their books a contingent liability, contrary to the standards established by the American Institute of Accountants.

Governor Shepardson inquired as to the cost of preparing such a manual, and Mr. Young replied that although a precise figure could not be given at the time, he would estimate an additional outlay of about \$5,000 would be required for the System, noting that the participation in the project by one or two representatives of the American Institute of Accountants would presumably not entail any outlay by the System.

With respect to the next item in the memorandum relating to a request that nonreporting dealers supply historical volume position and credit figures back to 1950, with reporting pattern consistent with that used by dealers already supplying the same information to the New York Reserve Bank Trading Desk on a confidential basis, Mr. Young explained that the firms of Aubrey Lanston and Bartow-Leeds would need to reconstruct books of account in this connection since their only records available as a basis for such figures were the pertinent transaction slips. It might be necessary to offer to reimburse them for the cost of the historical compilations.

Governor Shepardson raised the point that, if the Board paid for preparing data for these two firms, there would be a question of

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equity involved for the remaining Government securities dealers who had provided such information at their own cost.

Mr. Young responded that it might be possible to persuade these two nonreporting dealers to pay the estimated cost of about \$2,000 on the basis of the benefits which would accrue to them from having the figures available.

In amplification of the next item on the inventory, Mr. Young said that the Lanston firm had objected to the Trading Desk being used to receive statistical information on dealers' positions on the grounds that these figures could be used against any particular dealer by those at the Desk in its Open Market operations. He felt this was a situation which should be "tidied up" and that it was a function which perhaps should be transferred to the Research Department of the New York Bank or perhaps to the Board. At the least, he said, if this function were retained by the Trading Desk, there should be a separation maintained between those at the Trading Desk who receive this information on an individual dealer basis and the traders, who should only have access to aggregate figures.

Mr. Thomas said that Mr. Rouse, Manager of the System Open Market Account, took an opposite view, since he believed that the Account Manager should have such data in order to engage in any policing action that might arise in the management of the account

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and that these data were also essential to the maintenance of a good market in Government securities.

Mr. Young replied that Mr. Larkin, Assistant Vice President of the New York Reserve Bank, who was thoroughly familiar with the Trading Desk, had told him recently that while this may have been true during the period of System support of the market for Treasury issues, he had noticed decreasing reference by the traders to the book containing individual statistics in recent years.

Mr. Young then concluded his summary of the information contained in the inventory memorandum by referring to a suggestion made by Mr. Roosa, Vice President of the New York Bank, that spot investor surveys be made to supplement intelligence from regular statistical information along with determination of staff assignment therefor. Such surveys could be employed to explore unusual market situations, to test possible emergence of major changes in market behavior when other data cast out signals of doubt, and to ascertain investor preference with regard to forthcoming offerings.

In the discussion that ensued, Governor Mills stated that he understood this inventory of areas for possible action was entirely exploratory. He felt that the Board would be in a position to come to grips with the various matters involved only after the suggestions had been sifted through a Federal Open Market Committee meeting.

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Chairman Martin replied that this was correct, but that this was a preview of the suggested areas for action to get the Board's reaction before taking the question up with the Open Market Committee.

Governor Robertson referred to the proposed manual of standard accounting practices, noting the difficulty of trying to impose a new procedure on dealers when their cooperation had not been solicited. He suggested that some means be found for having the security dealers participate in preparation of the manual.

Mr. Young stated that it was assumed that the accounting firms selected to participate in this part of the program would be active in accounting in the securities business and that they would consult the dealers in the process. He then outlined the difficulties of selecting a dealer or dealers to represent the group on a project such as this.

Chairman Martin commented that one of the primary reasons why some sort of an organization of securities dealers might be desirable was to be able to determine who would represent the dealers in a matter of this kind.

With respect to an organization of Government security dealers, Mr. Young remarked that this had been found to be a sensitive subject with the dealers and that any further exploration regarding the specific functions to be performed by such an organization would need to be conducted at a high level. In response to a question from Governor Szymczak, he explained that the staff had looked into the possibility

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of working through the National Association of Securities Dealers to accomplish the ends intended, but that since that Association was engaged in policing cases of malpractice under the Maloney Act of 1938 (Public Law No. 719, 75th Congress) which amended the Securities and Exchange Act of 1934, it did not appear that it would provide the kind of organization needed for this purpose.

He noted that, so far as margin requirements on Government securities were concerned, it would be desirable to have prepared and negotiated a joint bank supervisory statement relating to minimum margins and other credit standards which banks ought to adhere to in credits extended to others than Government security dealers or banks on Government security collateral (including repurchase arrangements, reverse repurchases, and forward delivery contracts). This would be a tender topic with State bank supervisors, but once such a statement had been agreed upon, Mr. Young felt it should be made available to various interested persons and firms. He also recommended that a letter be sent to the New York Stock Exchange requesting that it review its flat 5 per cent margin rule on Government securities, especially the consistency of this rule with margins that might be recommended in a joint supervisory statement, and that there be exploration by the Treasury of the feasibility of administrative margins on subscriptions to refunding bond offerings.

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It was then decided to send this portion of Mr. Young's inventory of areas for possible action to the Federal Open Market Committee and that this topic should be scheduled for discussion at its next meeting on October 13, 1959.

During the discussion, Mr. Koch, Associate Adviser, Division of Research and Statistics, entered the room.

Attention was then turned to the second part of Mr. Young's report covering preparation of draft legislation for possible later consideration.

Governor Robertson suggested that it would be appropriate to set up a small joint staff group of Federal Reserve and Treasury personnel in this connection, and there was agreement with this suggestion.

After some discussion of the relative merits of releasing the tentative legislative suggestions carried in this portion of Mr. Young's report prior to consideration at the next Federal Open Market Committee meeting, it was agreed that there should be no such prior circulation but that Mr. Young should be prepared at that time to outline the proposed legislation in the Committee meeting. It was also understood that Mr. Hackley would explore with a member of the Treasury staff specific legal issues that might be involved in formal regulation of the market as a step toward preparing for submission of a proposal to the Congress in the event of need.

The meeting then adjourned.

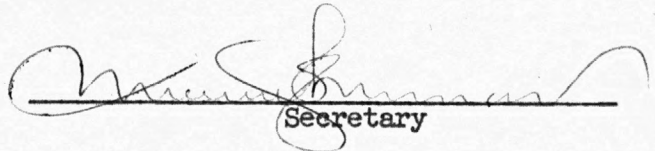
Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

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Memorandum dated September 30, 1959, from Mr. Noyes, Adviser, Division of Research and Statistics, recommending that Ann M. Van Eckhardt, Statistical Assistant in that Division be changed from a full-time basis to a part-time basis (four hours per day) for a period of up to six months, with her salary based on \$4,190 per annum.

Letter to Price Waterhouse & Co., Washington, D. C. (attached Item No. 4) requesting an audit by that firm of the books and accounts of the Board of Governors for the year 1959.


Secretary

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

Item No. 1
10/5/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 5, 1959.



Board of Directors,
Girard Trust Corn Exchange Bank,
Philadelphia 2, Pennsylvania.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors of the Federal Reserve System approves the establishment by Girard Trust Corn Exchange Bank, Philadelphia, Pennsylvania, of a branch near the northeast corner of Comly Road and Roosevelt Boulevard, Philadelphia, Pennsylvania, 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) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 2
10/5/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 5, 1959



Mr. John J. McCloy, Chairman,
Board of Directors,
The Chase Manhattan Bank,
Eighteen Pine Street,
New York 15, New York.

Dear Mr. McCloy:

In accordance with your request and on the basis of the information furnished in your letter of August 17, 1959, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants permission to The Chase Manhattan Bank, New York, New York, pursuant to the provisions of Sections 9 and 25 of the Federal Reserve Act, to increase from \$1,000,000 to \$1,500,000 the amount it may invest in the stock of Chase Manhattan Overseas Corporation, New York, New York.

The Board of Governors also grants permission for Overseas Corporation to invest an amount up to its aggregate capital and surplus as thereby increased in the stock of The Chase Manhattan Bank (South Africa) Ltd., Johannesburg, Union of South Africa, and grants its consent to the establishment of a branch of the South African bank in Capetown, Union of South Africa, to be located in the African Life Building, Thibault Square, Capetown, and, pending the completion of such building, in temporary quarters in Capetown. The location of the branch may not be changed, after establishment in permanent quarters, without the prior approval of the Board of Governors.

Unless the branch is actually established and opened for business on or before October 1, 1960, all rights granted hereby will be deemed to have been abandoned and the authority hereby granted will automatically terminate on that date.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the branch is established and opened for business in temporary quarters, furnishing information as to exact location, and also when removed to permanent quarters.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 3
10/5/59

OFFICE OF THE CHAIRMAN

October 5, 1959.

The Honorable Charles O. Porter,
House of Representatives,
Washington 25, D. C.

Dear Mr. Porter:

This is in reply to your letter of September 25, 1959, in which you were kind enough to ask my advice as to the feasibility of your introducing a monetary reform bill in the next session, which would, among some other topics, provide for the complete demonetization of silver.

In a statement I made on behalf of the Board of Governors before the Subcommittee on the Federal Reserve System of the Senate Committee on Banking and Currency on July 13, 1955, I pointed out that the silver purchases which the Treasury has to make under existing legislation are "unnecessary from the point of monetary policy." I stated that the Board of Governors "has no interest in the continuance of existing legislation with respect to silver purchases," but also pointed out that the effects of these purchases on member bank reserves, with which the Federal Reserve is primarily concerned, "have been relatively small and . . . can be offset, if necessary, by other operations of the Federal Reserve System."

While I am still inclined to take a similar view of that portion of your proposal, this bill would embrace a number of points in addition to the demonetization of silver. Some of your ideas have ramifications that deserve close investigation and members of the Board's staff are being asked to make a careful study of your suggestions. I shall communicate with you again as soon as their study is completed.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Wm. McC. Martin, Jr.", written in a cursive style.

Wm. McC. Martin, Jr.

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

Item No. 4
10/5/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 5, 1959

Price Waterhouse & Co.,
1000 Vermont Avenue, N. W.,
Washington 5, D. C.

Gentlemen:

It is requested that your firm undertake as promptly as convenient after January 1, 1960, an audit of the books and accounts of the Board of Governors of the Federal Reserve System for the year 1959.

No restrictions have been or will be placed upon your firm with respect to the scope of the audit or the manner in which it is to be conducted. You will make the audit as extensive as you deem appropriate, and in such manner as appears to you to be desirable in the light of generally accepted auditing standards.

Written confirmation that you will undertake this audit will be appreciated.

As to a review in 1960 of the procedures employed by the Board's examiners in connection with the examinations of the Federal Reserve Banks, the Board has this matter under consideration and you will be advised promptly when a decision has been reached.

Sincerely yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.