The attached minutes of the meeting of the Board on October 14, 1959, which you have previously initialed, have been amended at the request of Governor King to revise the last paragraph on page 6, the first full paragraph on page 7, and the first full paragraph on page 13 of the minutes as originally written.

If you approve these minutes as amended, please initial below.

Gov. Mills

Gov. Balderston

Gov. Shepardson

FR 609
Rev. 10/59

Minutes for October 14, 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 Wednesday, October 14, 1959. The Board met in the Board Room at 9:30 a.m.

PRESENT: Mr. Martin, Chairman 1/
Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. King 2/

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Young, Director, Division of Research and Statistics
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Noyes, Adviser, Division of Research and Statistics
Mr. Robinson, Adviser, Division of Research and Statistics
Mr. Koch, Associate Adviser, Division of Research and Statistics
Mr. Dembitz, Research Associate, Division of Research and Statistics
Mr. Chase, Assistant General Counsel
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Landry, Assistant to the Secretary
Mr. Collier, Chief, Current Series Section, Division of Bank Operations
Mr. Ford, Economist, Banking Section, Division of Research and Statistics
Mr. Knipe, Consultant to the Chairman

Further consideration of the maximum permissible rates of interest payable under Regulation Q. Following Board discussion of this question at its meeting on October 6, 1959, there had been

1/ Chairman Martin withdrew from meeting and re-entered at points indicated in minutes.
2/ Governor King withdrew from meeting at point indicated in minutes.

distributed to the Board memoranda from Mr. Robinson dated October 7, 1959, and from Mr. Young dated October 8, 1959, relating, respectively, to a Federal Reserve Bank of New York memorandum of September 11, 1959, on interest rate ceilings under Regulation Q and to the question of possible revision of such ceilings.

With respect to the timing of any announcement of an increase in the permissible interest rates under Regulation Q, the Chairman suggested the advisability of discussing such a move beforehand with the Treasury, particularly because of the effect that such action would have on the savings bond program.

In further discussion of the question, there was a general belief that no action should be taken on raising the maximum permissible interest rates at present but that the question should be reviewed next month to make it possible for banks to give 30-day notice to depositors by means of a December 1 announcement to take effect January 1, 1960, should a decision be reached to raise the maximum permissible rates.

Governor Mills emphasized that the statute involved was a banking directive and in consequence expressed the view that a decision reached on the question should be based upon banking rather than economic considerations.

Governor Szymczak suggested that additional thought be given to the possibility of tying the maximum permissible rate on time and

savings deposits to some other interest rate, such as the discount rate, in order to simplify administration of the regulation.

In answer to a question from Governor Robertson as to the reply which should be given to bankers who had written in requesting Board action on the matter, the Chairman suggested that it would be preferable to leave such requests unanswered, not only because the Board had not made a decision on this question, but also because the only way in which such questions could be stopped would be through a general announcement. In his opinion, there were definite advantages in saying nothing at this time.

It was then decided that further consideration of the question should be postponed to the week of November 9. The Federal Advisory Council, it was noted, would be meeting November 16 and 17, at which time it might bring up this problem.

Mr. Ford then withdrew from the meeting.

Inclusion of vault cash as a part of required reserves and problems related thereto. There had been distributed to the Board under date of September 29, 1959, a memorandum from Messrs. Dembitz and Thomas presenting data on vault cash holdings of member banks. Subsequently, a letter dated October 9, 1959, had been received from Mr. Erickson of the Boston Reserve Bank, incorporating a proposal for an outright release of reserves through the inclusion of a portion of vault cash in required

reserves at an appropriate time in the fall of 1959. Mr. Erickson's letter referred to the fact that at the joint meeting of the Board and Reserve Bank Presidents on September 23, 1959, Chairman Martin had invited comments from the Conference members as to whether it would be desirable and feasible to take any action this year under Public Law 86-114, enacted July 28, 1959, to permit member banks to count vault cash as required reserves. He pointed out, furthermore, that the Chairman had also asked for suggestions as to the procedures that might be followed should action be decided upon, and he indicated that his proposals were in response to this invitation.

The Chairman pointed out that there was to be kept in mind, among other things, the informal commitment to inform the Mint of the time schedule of any actions which the Board might take in implementing the vault cash proposal.

In response to a question on this point, Mr. Farrell commented that he had talked with Reserve Bank Presidents about this problem and that none of them believed there would be any difficulty with the provision of an adequate amount of coin to member banks should vault cash be included among required reserves.

The Chairman then indicated that he had no strong conviction about moving on the question at present. The reason he had caused this matter to be docketed was to clear the road for the Board to act, if it so desired, during his impending absence.

Governor Shepardson suggested the possibility of a two-part package approach which would use vault cash to meet some of the seasonal bulge in reserve needs during the fourth quarter of 1959, after which the return flow of currency from circulation could be offset by raising reserve requirements.

Governor Robertson then proposed that reserve city and central reserve city banks be permitted to count all vault cash over that portion represented by 1-1/2 per cent of demand deposits, such amount to be counted as legal reserves in the last week of November, for example, to be followed in December by permission to country banks to count all vault cash in excess of 3 per cent of demand deposits. This would release about $165 million reserves to the first two classes and about $350 million reserves to the country banks. In addition, there would be an announcement that as of January 15, 1960, the Federal Reserve Banks would shift to a three-day maximum deferred availability from the present two-day basis, thereby absorbing about an equal amount of reserves. The advantages of this plan were that it would provide an incentive to banks to build up their currency holdings for emergency purposes, it maintained the present interclassification gap in effective reserve requirements, it did not create further inequities as between individual banks so far as reserve requirements were concerned, it would provide a more realistic deferment schedule, and it would not prejudice the further program of action under the recent reserve requirement legislation.

At this point the Chairman withdrew from the meeting.

Mr. Thomas noted that Governor Robertson's proposal would place maximum effective reserve requirements for country banks at 14 per cent and for city banks at 18 per cent and that the added feature to change the deferment schedule was not a necessary part of the proposal. His principal question would be whether the proposal went far enough in its release of reserves. Admittedly, it would leave the Board in a position where it could not be handicapped in taking further steps under the new legislation.

Referring to Governor Robertson's suggestion that a reduction in float that would result from increasing the maximum deferment schedule to three days could recapture the reserves released through counting vault cash in the reserve base, Governor Shepardson inquired to what extent the System would need to recover after the first of the year the seasonal release of reserves before Christmas. In other words, how much of the reserves released should remain in the banking system due to the growth factor? Mr. Thomas replied that at least nine-tenths of the reserves released should be recaptured.

Mr. Farrell remarked that an increase in the deferment schedule would hit some banks harder than others, that Governor Robertson's suggestion for counting only the vault cash at country banks in excess of 3 per cent of demand deposits would provide no benefit to those banks currently holding vault cash less than 3 per cent of demand deposits, and that the combining of these two steps might tend to "compound inequities" for some banks.

To this, Governor Robertson replied that it would be impossible to produce complete equity among individual banks and that he realized certain banks would be hurt by a reduction in float.

Governor Shepardson pointed out that it was possible, as an abstract proposition, that some banks having relatively large amounts of vault cash also were benefiting most from a large float factor. Mr. Thomas called attention to the fact that the existing situation could be said to be inequitable because the deferment schedule favors some banks more than others and because an advantage accrues to banks that hold little vault cash.

In an additional reference to Mr. Farrell's comments, Governor King pointed out that whenever a situation of inequity exists and a means is undertaken to correct it, it becomes necessary to provide more for some and less for others in order to effect correction of the basic inequity. An inevitable result of attempting to correct the inequities inherent in the current system of reserve requirements would be to give some banks more benefit and others less.

In response to a question from Governor Balderston as to whether the problem should be attacked piecemeal or in one fell swoop, Governor Robertson noted that his proposal recognized that the Board was not in a position at present to evaluate further problems under the reserve requirement legislation and that it would not complicate such problems.

Governor Mills said that his approach would be a less ambitious one and would fall more in line with Governor Shepardson's first comments and the thinking of Mr. Erickson; namely, to join the supplying of

seasonal reserves to a release of a minor amount of vault cash. He would stop short at that point and find out what lessons were to be learned from the initial step. To increase the availability of reserves to country banks presented a problem because that area is less under System control in the expansion of credit than the city bank area. How reserves in the country bank area could be absorbed after the end of the year unless reserve requirements were raised constituted a difficult problem, but when it came to raising reserve requirements or increasing the deferment schedule there were fundamental public relations problems to consider. In either case, the Board would be open to the charge of being an "Indian giver". The spirit of the law that the Board had been asked to implement was to reduce inequities and offer greater reserve advantages to banks that had suffered under the old law. As to the question of three-day maximum deferment, when that question was up for discussion earlier and was discussed with the Federal Advisory Council, it created a tremendous amount of discussion in banking circles, even to the point that it was reported that the matter had entered into the Government Borrowing Committee's discussions at the Treasury.

Governor Balderston inquired whether it was not important, each time vault cash was released for some or all banks, to raise reserve requirements soon thereafter so as clearly to associate the one action with the other.

Governor Mills replied that he was not sure. However, his instinct told him that the Board should avoid trying to look too far ahead. He suggested that nature was likely to come to the help of the Board in some of these matters and said that he felt the Board should not try to outguess the economy.

Mr. Thomas then listed what he considered to be four principal points for discussion: (1) The desirability of not releasing into the reserve base so much vault cash as to interfere with monetary policy; (2) adherence to the view of the bill's managers in the House of Representatives that the legislation was not intended to encourage the System to sell securities from its Open Market Account; (3) the desirability of avoiding an undue spread in percentage reserve requirements as between reserve city and country banks; and (4) observing the inherent purpose of the legislation to aid most of those banks with large vault cash holdings. He said that the third of these aspects was the most important in his estimation and that the first three taken together suggested that the release of vault cash to reserves should be largely offset by increases in reserve requirements, particularly for country banks. Such an increase could be avoided only in case the vault cash were released to supply increased reserves that might be needed over a long period of time and in that event requirements at reserve city banks would need to be lowered to avoid too wide a differential between classes.

He then proceeded to outline four alternative methods that might be followed to implement the provisions of Public Law 86-114 as follows:

(1) The simplest method would be immediately to permit banks to count all of their vault cash as required reserves, thereby releasing about $2.1 billion of reserves, without any increase in required reserves. This plan would serve the purpose of removing existing inequities as to effective reserve needs among individual banks within each reserve class, but it would create a spread of 5-1/2 percentage points in required reserves between reserve city and country banks compared to an effective current spread of 3-1/2 percentage points. It would release more reserves than desirable under present circumstances and would have to be offset by open market operations, contrary to the admonition of the House managers.

(2) A second method would be to count as legal reserves vault cash of some limited proportion of deposits. An example would be not over 1 per cent of demand deposits for central reserve and reserve city banks and not over 2 per cent for country banks. This would release about $1.3 billion of vault cash to reserves but would not accomplish one purpose of the law, namely, a reduction of inequities between banks in the same class, and it would still leave a wide spread between requirements for reserve city banks and country banks.

(3) A third method would be the one proposed by Governor Robertson, namely, releasing all vault cash in excess of 1-1/2 per cent of demand deposits at reserve city and central reserve city banks and in excess of 3 per cent at country banks. This would have the effect of establishing maximum effective reserve requirements of 14 per cent at country banks, 18 per cent at reserve city banks and 19.5 per cent at central reserve city banks. Banks with smaller vault cash holdings, including nearly all central reserve city banks and about 30 per cent of other banks, would continue to have lower effective requirements. This would lower effective reserve requirements for about 4,250 banks, would not raise these requirements for any bank, and would encourage banks to hold vault cash. This method would release only about $500 million to reserves, which could be offset if tied in with lengthening the deferred availability schedule, as suggested by Governor Robertson. It would also leave the way open for adjusting reserve requirements for the two classes when the remainder of the vault cash was released.

(4) A fourth method would be to release all vault cash into reserves and raise reserve requirements sufficiently to offset practically all of this release. This could be done, for example, by leaving requirements for central reserve city banks at 18 per cent, and raising reserve city banks to 17-1/2 per cent and country banks to 14 per cent. The effect would be to lower effective reserve requirements for over

4,000 country banks, 230 reserve city banks, and 30 central reserve city banks, but to raise them for 1,850 country banks and less than 40 reserve city banks. The net result would be a release of about $600 million of reserves that would have to be absorbed.

Mr. Thomas said that he favored this last mentioned method since it would finish the job completely except for appropriate adjustments to monetary policy and since the other methods would be administratively unwieldy. As second best, he favored Governor Robertson's proposal, which would be a step in the same direction. He cautioned that the apparent haste of the Reserve Banks to act in this matter for public relations reasons was in danger of getting the System into a box from which it would be difficult to escape later on. To release reserves by counting vault cash without adjusting the requirement percentages would leave such a wide differential between reserve city and country banks that it would be difficult to execute the provisions of law with respect to classification of individual banks without having inequitable differences between competing banks. Also for monetary policy purposes the effective reserve requirements for country banks would be too low.

Chairman Martin withdrew from the meeting at this point, having reentered the room during the preceding discussion.

Mr. Dembitz indicated a preference for Governor Robertson's plan since it met the Congressional specification of removing inequities among banks. Furthermore, from the viewpoint of public relations, it

would do something for the majority of member banks with the amount of reserves released being relatively small and easily offset. He responded in the negative to a question from Governor Balderston as to whether he would favor raising reserve requirements in January. A further merit of Governor Robertson's plan, in his opinion, was that it constituted a reasonable first step to implementing the law, which could be followed in the latter part of next year by a further release of vault cash into reserves.

Governor King raised for discussion the alternative possibility that a specified percentage of vault cash might be released to reserves for all classes of banks since this would be more palatable to the banks than a varying percentage.

Mr. Thomas commented that such a plan would move slowly toward helping banks with larger amounts of vault cash and that it would not do as much as the Robertson plan to eliminate inequities. He also commented that adoption of this alternative would give up some of the possibilities for offsetting, if it should be desired to raise reserve requirements later.

Governor Shepardson added that regardless of which plan was adopted, if the figures on reserve levels were correct and offsetting adjustments were made by the System to any release of reserves, what was given to one bank would necessarily be taken from another, a fact which some observers failed to recognize.

There followed a brief discussion as to the extent to which Governor Robertson's plan would meet the emergency planning need for

distribution of cash. Mr. Noyes expressed the view that no action should be taken towards implementing Public Law 86-114 at present. This decision, he thought, should be accompanied by a public statement pointing out that the problems of introducing the measure at a time of monetary restraint would be compounded if the System took into account the wishes of the House of Representatives in this matter and that the System's decision had been reached from the point of view of the interests of both the banking system and the country.

Mr. Riefler suggested the whole job of permitting all vault cash to be counted as legal reserves be done in January, raising reserve requirements at that time to 13 per cent for country banks and to 17-1/2 per cent for reserve city banks, leaving central reserve city banks at 18 per cent. Half of the resulting release of $1 billion to reserves could be offset by advancing the deferment schedule to three days, and the remainder through open market operations and other reserve changes that would be involved in the large operations ordinarily necessary in January. There would be no change in the central reserve city category until the three-year permissible grace period had lapsed.

Mr. Koch expressed some concern that the matter of equity between reserve city and country banks was getting a rather low priority in this discussion. He would be inclined to mesh the first gradual release

of vault cash with a reserve requirement increase. Practically speaking, a gradual release of vault cash probably was called for, and the first point would be to tie that in with a reserve requirement increase. An alternative would be to release some vault cash this fall, and then to use the open market technique next January or February for offsetting.

Mr. Young withdrew from the meeting at this point.

Governor Shepardson observed that a disadvantage of Mr. Thomas' package proposal was that not all banks would be affected in the same way. Although banks with a large amount of vault cash would not be hurt by an offsetting increase in reserve requirements, banks with a minimum amount of vault cash would be adversely affected by such an increase. Accomplishing the program in stages would provide more time for such banks to adjust to the changed circumstances.

Mr. Dembitz stated that if the Board should start on the basis of Governor Robertson's plan, this would involve no necessary future problems. In the fall of 1960 there would be an opportunity to consider at the time of seasonal expansion of credit the impact on the problem of interim economic developments. If the economic setting were not different from the current one, a further amount of vault cash could be released to reserves by reducing the minimum percentages that must be retained to 2 per cent and 1 per cent for country and noncountry banks, respectively, thereby releasing about another $500 million of vault cash to reserves. A similar move after 1960 could be offset, if necessary, by increasing reserve requirements which would cause net suffering by only a small number of banks.

Observing that he preferred adopting Mr. Noyes' suggestion because of the uncertainty relating to the current steel strike, Governor King withdrew from the meeting.

Governor Szymczak indicated that he would favor doing nothing at this time and that he would issue a statement setting forth the reason. If it was the majority view that something should be done, he would be inclined to agree with Governor Mills' reasoning, that is, to do a little something. Eventually, however, he felt that the Board would have to accept the Riefler-Thomas plan. He agreed with Governor Mills that the deferment schedule presented a public relations issue and said he would not like to see the two things tied together.

Governor Balderston said that philosophically he had a great deal of sympathy with the plan of Governor Robertson. As a practical matter, however, he wondered whether the deferment schedule matter would not so complicate the whole problem as to lead to doing nothing, which he felt would be inappropriate in view of the Board's representations to the Congress. His feeling at the moment was that the Board should act in November but be careful to think out the further steps of any program. The schedule proposed by Mr. Dembitz had considerable appeal to him if the Board felt it could approach the problem piecemeal and not create difficulties that would be insuperable. The cleanest thing to do would be to get the whole problem behind, but he was not sure it might not be wiser to approach the problem in steps.

During a discussion which then ensued as to the relative merits of offsetting any release to reserves of vault cash by raising required reserves or by open market operations, Mr. Riefler pointed out that if the reflux of currency to the banks at the first of the year were not offset by raising reserve requirements, the market would misconstrue this. Therefore, so long as the business boom continued, the reflux of currency should be offset.

At this point Mr. Young re-entered the room.

It was then suggested that a staff memorandum should be prepared for consideration at a Board meeting listing the various alternative proposals, including Mr. Erickson's, with consideration of the effects on the banking system of the various proposals, and Governor Shepardson added the suggestion that the question of the extent to which a partial increase in reserve requirements and reduction in float could be substituted for each other should also be explored.

The Chairman having re-entered the room at this point, Governor Balderston explained that the principal proposals on this question to be considered at a future meeting of the Board were the plan of Messrs. Thomas and Riefler, counseling that the whole job be done at one time, and that of Governor Robertson and Mr. Dembitz, perhaps either making allowance for some offsetting increase in required reserves or extension of the deferment schedule to reduce float.

There then ensued a brief discussion of the various proposals that might be considered, after which the Chairman stated that he favored getting three or four plans to see whether there was general agreement on any one of them. He went on to say that the legislation in question had been proposed under economic conditions different from those in existence when it was finally passed. Consequently, if a clear majority of the Board did not have a wholehearted conviction that certain action should be taken, it would seem better to take none. The Board should not be jockeyed into action simply because autumn offered an opportunity for supplying reserves.

It was then agreed that the staff would state the alternatives available in memorandum form and submit such a memorandum to the Board for later consideration.

Messrs. Dembitz and Collier then withdrew.

Discussions between Mr. Knipe and representatives of the Commission on Money and Credit. There had been distributed to the Board a memorandum from Mr. Knipe dated October 7, 1959, relating to discussions with representatives of the Commission on Money and Credit of the Committee for Economic Development. In commenting on his memorandum, Mr. Knipe stated that the Commission had farmed out several studies of credit and monetary policy which might be critical of positions taken by the System in certain areas. He reminded the meeting that representatives of the Commission felt they had been rebuffed last

November when they attempted to establish liaison with the System. As he saw it, this may have been for the best since it would be construed as evidence the System had not attempted to influence the Commission's thinking on monetary and credit matters, but a System policy of general rapprochement to the Commission's representatives seemed desirable at the present time. The purpose of his memorandum had been to inform the Board of the nature of the present relationship with the Commission which had been initiated by a meeting and lunch on October 5 with Alfred Neal, President of the Committee for Economic Development, and Bertrand Fox, staff director of the Commission, as arranged by Chairman Martin. He said that in his estimation it should be up to the Commission to conduct its own studies but that Mr. Fox had specifically requested permission to talk with Mr. Pickering of the Board's staff regarding a study designed to measure the impact of restrictive monetary policy on the floating of State and local bond issues and that Mr. Fox had also requested permission to approach Mr. Wendel of the Board's staff with a proposal to do a spare-time study for the Commission on "Source of Funds or Financing Methods for State and Local Bond Issues."

The Board concurred in the procedures outlined by Mr. Knipe in his memorandum for maintaining liaison with representatives of the Commission as well as with Mr. Knipe's suggestion that Board staff members should be permitted to respond to reasonable requests from the Commission.

Messrs. Riefler, Thomas, Young, Hackley, Farrell, Solomon, Noyes, Robinson, Koch, Chase, Conkling, and Knipe withdrew at this point, and Messrs. Fauver, Assistant to the Board, and Johnson, Director, Division of Personnel Administration, entered the room.

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

	Item No.
Letter to the Federal Reserve Bank of New York interposing no objection to a one year-leave of absence for Lawrence S. Ritter.	1
Letter to the Garfield Commercial and Savings Bank, East Los Angeles, California, granting an extension of time within which it may establish a branch at 225 West Garvey Avenue, Monterey Park.	2
Letter to the Presidents of all Federal Reserve Banks regarding the holding of public or political office by officers, directors, or employees of the Federal Reserve Banks.	3
Letter to The First National Bank of El Campo, El Campo, Texas, approving its application for fiduciary powers.	4
Letter to City Bank, Detroit, Michigan, approving the establishment of an in-town branch at 660 Woodward Avenue.	5
Letter to Senator Eastland on S. 1070, a bill to rewrite the Administrative Procedure Act.	6

Consideration of the appointment of a Class C director at a Federal Reserve Bank. Governor Shepardson referred to a memorandum from Mr. Fauver dated October 13, 1959, giving biographical information regarding four persons who might be considered for appointment to succeed Mr. J. Stuart Russell as a Class C director for the Federal Reserve Bank of Chicago since Mr. Russell had served two terms and was not considered to be eligible for re-appointment. Following a discussion of the four individuals, it was agreed that in the absence of Chairman Prall from the country the Deputy Chairman, Mr. Russell, should be asked to ascertain if Dr. James H. Hilton, President of Iowa State University of Science and Technology, would be available and willing to serve and that, if so, he should be appointed effective January 1, 1960, with formal appointment and announcement to be withheld until the Board's general announcement on director appointments toward the end of this year.

Mr. Young re-entered the room at this point to inform the Board that he had just received a four-page letter from Mr. James Knowles, of the staff of the Joint Economic Committee, containing eight specific questions relating to data on trading volume and positions of Government security dealers since 1953. He suggested the appropriate method for handling this request would be to transmit the questions to the New York Reserve Bank via Mr. Rouse and let the New York Bank determine the procedure for answering the questions. He added that he would have copies of the letter made for the use of the Board.

There was unanimous approval of this plan, and the meeting then adjourned.

Secretary's Note: On October 13, 1959, Governor Shepardson, acting on behalf of the Board, approved the designation of Mr. John R. Farrell, Director, Division of Bank Operations, to serve as an associate on the ad hoc subcommittee of the Conference of Presidents appointed to study the System policy of absorbing shipping charges on currency shipments.

Secretary

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

Item No. 1
10/14/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 14, 1959

Mr. William H. Braun, Jr.,
Secretary,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Braun:

Thank you for your letter of September 25, 1959, advising that at the request of Mr. Bertrand Fox, Staff Director of the Committee for Economic Development's Commission on Money and Credit, the services of Mr. Lawrence S. Ritter, Chief, Domestic Research Division, Research Department, were made available to the Commission. It is noted from your letter that Mr. Ritter was granted a leave of absence without pay for a period of one year commencing March 1, 1959.

The Board of Governors interposes no objection to the arrangements with respect to Mr. Ritter as described in your letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 2
10/14/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 14, 1959

Board of Directors,
Garfield Commercial & Savings Bank,
East Los Angeles, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors of the Federal Reserve System extends until January 4, 1960, the time within which Garfield Commercial & Savings Bank may establish a branch at 225 West Garvey Avenue, Monterey Park, California, under the authorization contained in the Board's letter dated April 13, 1959.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 3
10/14/59
S-1713

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 14, 1959.

Dear Sir:

This letter refers to the Board's resolution of December 23, 1915 prohibiting the holding of political or public office by directors or officers of Federal Reserve Banks (F.R.L.S. #3090) and to the Board's letter of June 30, 1954 (F.R.L.S. #3151), which makes it clear that the principle of the 1915 resolution prohibiting political activities of the kind covered should be applied to employees as well as directors and officers.

On occasion, questions have been presented to the Board after the director, officer, or employee involved had accepted a particular public office. In order to permit advance consideration of such questions, it is suggested that every effort be made to keep employees, as well as officers and directors, informed of the Board's policy so that any such question may be brought to the attention of the appropriate officers of the Reserve Bank and, if necessary, to the Board's attention, before the individual concerned seeks or accepts an office of a public or political character.

Another aspect of this general subject may be mentioned for your information. In a few instances a number of years ago, the Board interposed no objection to the service of Federal Reserve Bank directors as members of State banking boards. This question has recently been reconsidered in a particular case and the Board is now of the view that membership on a State banking board would not be compatible with service as a director of a Federal Reserve Bank and that, therefore, dual service of this kind should be regarded as inconsistent with the policy stated in the 1915 resolution of the Board.

Very truly yours,

Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 4
10/14/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 14, 1959

Board of Directors,
The First National Bank of
El Campo,
El Campo, Texas.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Texas. The exercise of such rights shall be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

In addition to the fiduciary powers herein authorized, the bank was granted authority on March 27, 1942, to act as co-trustee under the trust agreement of Guy F. and Edith Stovall.

A formal certificate indicating the fiduciary powers that your bank is now authorized to exercise will be forwarded in due course.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 5
10/14/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 14, 1959

Board of Directors,
City Bank,
Detroit, Michigan.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors approves the establishment of a branch at 660 Woodward Avenue, Detroit, Michigan, by City Bank, Detroit, Michigan, provided the branch is established within six months.

This approval is given with the understanding that management of the bank will use its best efforts to obtain the necessary authority at the stockholders' meeting in January 1960 to increase the capital of the bank at least $1,600,000 through the sale of additional common stock.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 6
10/14/59

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

October 14, 1959

The Honorable James O. Eastland,
Chairman, Committee on the Judiciary,
United States Senate,
Washington 25, D. C.

Dear Mr. Chairman:

Your letter of August 13, 1959, asks for the comments of the Board of Governors regarding S. 1070, a proposed revision of the Administrative Procedure Act.

The bill would make a large number of changes in the existing law, most of them designed to give additional protection to the rights of parties to agency proceedings. It would rewrite the entire Act, rather than make certain specific amendments; and, therefore, the full effect of the changes may not be immediately apparent in all cases.

A study of the bill, however, indicates that it would substantially affect the practice and procedure of the Board in several important particulars; and the Board is especially concerned regarding the effect the bill might have upon the effectiveness of rules adopted by the Board in the discharge of its responsibilities in the field of credit and monetary regulation. Thus, in adopting changes in margin requirements, changes in reserve requirements of member banks and changes in Federal Reserve Bank discount rates, it is essential to avoid advance notice of such actions in order to preclude unfair profits by speculators. Under the present provisions of section 4(a) of the Administrative Procedure Act, such actions are taken by the Board without notice of proposed rule making on the basis of finding that such notice would be "contrary to public interest". While S. 1070 would permit the Board to continue to dispense with advance notice in such cases, this could be done only on a temporary basis and a subsequent hearing would be required. However, any notice and public hearing following a credit policy action of the Board, such as a change in margin requirements, would appear to serve no useful purpose.

Although it is not clear, it appears that section 1009 of the bill might permit a reviewing court to substitute its judgment for the discretionary judgment of the Board in a matter committed by law to the Board's discretion, and might substitute a more liberal basis for reversal than the existing rule under which a reviewing court may set aside agency action which it finds to be unsupported by "substantial evidence". As explained in the accompanying section-by-section comments, the Board would be opposed to either such change.

As requested, there is enclosed a section-by-section discussion of the bill, with a statement of the manner in which S. 1070 would change the Board's present procedure, and, where appropriate, the Board's opinion as to whether such change would be desirable.

With respect to S. 600, the Board of Governors is in sympathy with provisions designed to enhance the status of hearing examiners. The Board does not have hearing examiners of its own, and therefore refrains from detailed comments on S. 600.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

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Enclosure

SECTION-BY-SECTION COMMENTS

Section 1002. - It appears that this section of the bill would not make any substantial change in the existing statute which would affect the practice of the Board of Governors.

However, attention is invited to the fact that the functions of the Board of Governors affected by the Administrative Procedure Act are almost exclusively functions relating to banks and bank supervision. These matters are traditionally and of necessity largely confidential in nature, and much of the information is obtained by bank examinations and by statistical information submitted in confidence. The confidentiality of bank examination reports is carefully guarded by all bank supervisory agencies. However, it is assumed that the provisions of section 1002(f) would not alter the existing situation.

Section 1003. - The Board of Governors, even before the enactment of the Administrative Procedure Act, was at great pains to ascertain the views of all concerned, before issuing or amending any of its regulations. In a typical case the Board consults the Federal Reserve Banks, and asks them to discuss the matter informally with certain interested persons, before even initiating any of the more formal steps contemplated by the Administrative Procedure Act. S. 1070 therefore would not affect substantially the practice and procedure of the Board, even though it is designed to require fuller public participation in rule making than does the present statute.

The above statement is subject to one exception of the utmost importance; namely, margin requirements, discussed in the accompanying letter.

Section 1004. - The Board construes the first three lines of section 1004 of S. 1070 to mean that except where specifically required by statute, licensing proceedings before the Board will not require a formal hearing and decision in conformity with section 1006 and 1007 of the proposed statute. For example, at present an application for the establishment of a branch bank does not require a formal hearing either under any existing statute, nor, in the Board's opinion, under the Constitution. The Board would object strongly to any other interpretation that might be given to S. 1070, because the regulation of banking presents wholly different problems from those of agencies working in other fields. Applications relating to banks are handled on the basis of examinations conducted in the field and protected by confidentiality, followed by opportunity for discussion with the agency both before and after agency action. The Attorney General's committee (prior to the enactment of the Administrative Procedure Act) found that in these circumstances there was no need for formal proceedings, and the Board still feels that this position is eminently sound.

Section 1006(b). - The Board of Governors does not now have the power to issue subpoenas (except under U. S. Code Title 12, sec. 603, a power which it has never had occasion to use). It is

not clear whether section 1006(b)(2) is intended to give the Board the power to issue subpoenas in all of its proceedings, or whether it is intended to give the presiding officer the power to issue subpoenas even though the Board itself does not have such power, or whether it is not intended to make any change in existing law as to the issuing of subpoenas in Board proceedings.

The Board of Governors is generally in sympathy with provisions increasing the dignity and status of the hearing officer.

Section 1006(c). - The procedure of interlocutory appeals is already being followed by the Board of Governors.

Section 1006(d). - As stated above with respect to section 1002, those functions of the Board which are affected by the Administrative Procedure Act almost exclusively relate to banks and their supervision, and involve matters largely of a confidential nature such as bank examination reports. The Board assumes that under section 1006(b) it could continue to maintain the confidentiality of these matters; otherwise, the Board would object very strongly to the bill.

Section 1007. - These provisions, specifying what shall constitute the "record", would not materially alter the present practice of the Board of Governors, and the Board would have no objection to them.

Section 1008. - See comment, on section 1004, regarding "licensing" in banking matters.

Section 1009. - The provision of the first sentence of section 10 of the Administrative Procedure Act, excluding from judicial review agency action that is by law committed to agency discretion, is omitted from section 1009 of the proposed legislation. The effect of this change is not clear, but it appears that this provision might permit a reviewing court to substitute its judgment for the discretionary judgment of the agency in a matter committed by law to agency discretion. If this is so, the Board would be strongly opposed to the amendment for reasons which have been stated so often by courts and textwriters that they do not need to be repeated here.

Possibly the provisions in subsection (f) are intended to take the place of the opening sentence in section 10 of the Administrative Procedure Act. However, it is by no means clear that they would do so, because they are similar in effect to the existing provisions in subsection (e) of section 10. Moreover, as indicated below, the provisions in the bill would apparently weaken rather than strengthen the existing provisions in subsection (e).

Section 1009(f) specifying what agency action a reviewing court may set aside appears to differ in substance from section 10 of the Administrative Procedure Act in that section 1009(f) fails to provide for the setting aside of agency action found to be "unsupported by substantial evidence". Possibly the same effect is intended by the language of section 1009(f) providing for the setting aside of agency action "based upon findings of fact that are clearly erroneous on the

whole record" or "otherwise contrary to law". If this is the intent of either or both of the above-quoted provisions, the Board would have no objection. However, the Board is of the opinion that existing law allowing a reviewing court to set aside agency action only if not supported by substantial evidence should remain unchanged in a statute of this nature.

Section 1009(c)(3). - This would make a very substantial change in existing law by making agencies subject to suit not only in the District of Columbia where they reside but also in the judicial district where the defendant resides or wherein the act or omission complained of occurred. This obviously is a major change in policy and practice which would affect all agencies of the Government. The Board of Governors has very seldom been sued, and therefore it seemed desirable for the Board to refrain from commenting on the provision, but rather to leave it to agencies affected to an important degree to debate the issue.