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Minutes for May 23, 1960

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, May 23, 1960. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Thomas, Adviser to the Board
Mr. Shay, Legislative Counsel
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Noyes, Director, Division of Research and Statistics
Mr. Marget, Director, Division of International Finance
Mr. Garfield, Adviser, Division of Research and Statistics
Mr. Koch, Adviser, Division of Research and Statistics
Mr. Robinson, Adviser, Division of Research and Statistics
Mr. Dembitz, Associate Adviser, Division of Research and Statistics
Mr. Williams, Associate Adviser, Division of Research and Statistics
Mr. Furth, Associate Adviser, Division of International Finance
Mr. Hersey, Associate Adviser, Division of International Finance
Mr. Landry, Assistant to the Secretary

Messrs. Eckert, Gehman, Keir, Sigel, Solomon, Weiner, Tynan Smith, Fisher, and Manookian of the Division of Research and Statistics

Messrs. Katz, Irvine, Wood, Anderson, Maroni, and Reynolds of the Division of International Finance

Economic review. The staffs of the Divisions of International Finance and Research and Statistics presented a review of international and domestic conditions and developments.

1/ Attended morning session only.

Following this presentation all of the members of the staff withdrew with the exception of Messrs. Sherman, Noyes, and Landry, and the following entered the room:

Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Masters, Associate Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Benner, Assistant Director, Division of Examinations
Miss Hart, Assistant Counsel

Discount rates. The establishment without change by the Federal Reserve Bank of Minneapolis on May 20, 1960, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

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:

	Item No.
Letter to the Governor of Puerto Rico regarding the establishment of branches of national banks in the Commonwealth of Puerto Rico.	1
Telegram to the Presidents of all Federal Reserve Banks regarding reports to be submitted on competitive factors under the recently enacted bank merger legislation.	2

With respect to Item No. 2, which had been distributed in the form of a draft letter to the Presidents of all Reserve Banks, there was agreement with a suggestion by Mr. Hackley that there be added a reference to a report of the House Banking and Currency Committee in connection with the recently enacted bank merger legislation, and that the communication be sent in the form of a telegram. Mr. Hackley noted that the telegram was intended to make clear to the Reserve Banks that their comments with respect to proposed mergers involving banks in their districts be limited to reports on the competitive factors without recommendation for action. Mr. Solomon stated that this telegram would be helpful to the Reserve Banks and would result in a saving of time by limiting their investigations of proposed mergers to the competitive aspects alone.

Relationship between First Security Investment Company and Aubrey G. Lanston & Co., Inc. There had been distributed memoranda dated April 6, 1960, and April 29, 1960, from the Division of Examinations and the Legal Division, respectively, regarding the relationship between First Security Investment Company and Aubrey G. Lanston & Co., Inc. These memoranda had been prepared pursuant to the suggestion at the Board meeting on December 30, 1959, that it would be helpful if the Board could have a report on the relationship between First Security Corporation (the predecessor company to First Security Investment Company), Salt Lake City, Utah, and other financial organizations. The April 6 memorandum noted that the "spin-off" pursuant to the tax provisions of the Bank Holding

Company Act of 1956 from the old corporation to the new corporation which was accomplished on September 15, 1959, caused the old corporation no longer to be a bank holding company, whereas the new corporation became subject to regulation by the Board. With respect to investment by the old corporation in Aubrey G. Lanston & Co., Inc., specialists in U. S. Government and Federal agency securities, it was pointed out that during 1951 the old corporation acquired 5,000 shares of common stock and $250,000 par value of debentures of the Lanston Company. After investigation, the Board in a letter dated August 7, 1952, advised the San Francisco Reserve Bank that the old corporation's investment in Lanston stock violated Section 5144(e) of the Revised Statutes and that the old corporation should divest itself of ownership of such stock as soon as possible. On January 14, 1953, Mr. George S. Eccles, President of the old corporation, wrote that "we have disposed of this stock (Lanston) having sold it to Mr. Aubrey G. Lanston prior to the close of 1952." Subsequent investigation by the Reserve Bank in 1959 revealed that the stock sold Lanston prior to the close of 1952 was sold with an option to repurchase, which option originally terminated in 1957 but was later extended to 1964. General Counsel O'Kane of the San Francisco Reserve Bank concluded that the old corporation complied with the literal language of the Board's order to divest; however, it might also be said that holding an option to repurchase was not in compliance with the good faith tenor implied in the Board's order, especially in view of the fact that the old corporation failed to

apprise the Board that it had retained an option to repurchase the stock ordered divested.

The April 29 memorandum of the Legal Division expressed the view that by taking an option to purchase the stock the old corporation did retain an interest in Lanston in violation of Section 5144(e) of the Revised Statutes (U.S.C., Title 12, section 61). However, despite this conclusion, it was the opinion of the Legal Division that there appeared to be no sanction that the Board could impose for a past violation by a holding company affiliate which had ceased to own or control any banks. Accordingly, in the opinion of the Division there was no basis for legal action by the Board. Furthermore, although the Board was free to bring to the attention of the new corporation's directors any of its views relating to the conduct of the predecessor corporation, it was believed that no useful purpose would be served by such an expression, and it was recommended therefore that no action be taken.

Governor Robertson said that, contrary to the recommendation of the Legal Division, he was inclined to feel that the Board should say something to First Security Investment Company about the stock option.

Mr. Hackley replied that it was questionable whether there was a violation of the law in the first place. He felt that, although the spirit of the law was violated, the situation had changed since that action. The "spin-off" of the old corporation's assets to First Security Corporation in 1959 meant that the Board could only institute proceedings

against the new corporation, and it was doubtful that such a proceeding could be effective. However, it would be possible for the Board to address a letter to the new corporation on this matter as a question of policy.

Mr. Solomon indicated that his views were similar to those expressed by Mr. Hackley.

Governor Mills said that he was not sure what would be gained by writing such a letter to the new corporation so far as the investment by the old corporation in the Lanston Company was concerned. However, there remained an open area that he would like to have explored. In this connection, he referred to the discussion in the April 6 memorandum of the relationship between the new corporation and its subsidiaries, especially the First Security Savings & Loan Association of Pocatello, Idaho, of whose five directors three were directors of First Security Bank of Idaho, N. A., making it an affiliate of that bank, and three were directors of the new corporation, making the Association an affiliate of First Security Corporation, the new corporation. He said it would be helpful to his understanding of the situation if there could be provided some explanation of the relationships involved and of the extent to which these relationships would be subject to Board responsibility for administration of the Bank Holding Company Act of 1956.

Mr. Hostrup said that according to the latest information available to the Division of Examinations, as of December 31, 1958, the First Security Bank of Idaho, N.A., was still operating on behalf of the Savings and

Loan Association. It was his impression that this matter would be one primarily for the concern of the Comptroller of the Currency, since it represented financial interests of a national bank.

Governor Mills suggested that this question be brought to the attention of the Comptroller's Office. The relationship between the new corporation and First Security Insurance Agency, Inc., was one involving interlocking directorates but not to the degree that it was illegal. The sharing of directors and mutuality of understanding between First Security Corporation, the Savings and Loan Association, and First Security Bank of Idaho, N.A., however, went beyond the relationship that in the past had existed between Bankamerica Company (a securities company) and Transamerica Corporation. He recalled that after careful review of the method used by Transamerica to divest itself of stock in Bankamerica, the Board had decided in 1938 that control, even though through a chain of subsidiaries of the Class B stock in a company which owned Bankamerica, amounted to an "interest" within the meaning of section 5144(e) of the Revised Statutes and had required Transamerica to divest itself of that interest.

Mr. Solomon said that there was indeed a similarity between the two cases but that the present relationship was not contrary to the Bank Holding Company Act of 1956 as he understood it.

Mr. Hostrup commented that the information in the Board's possession concerning the First Security Savings & Loan Association and the First

Security Bank of Idaho, N.A., was taken from a national bank examination report and that the Division of Examinations did not know what the Comptroller had done about this relationship.

Governor Mills then suggested that the Comptroller be asked for his reflections on this problem and that it be pointed out at the same time that there was a dual administration problem involving the Comptroller's responsibility for supervision of national banks as well as responsibility by the Board for administration of the Bank Holding Company Act.

In the discussion that followed, Mr. Hexter suggested that it might be advisable to inform First Security Investment Company that the Board was aware of the use of the option device by the old corporation with respect to shares of Aubrey G. Lanston & Co., Inc., in order to forestall a similar procedure in the future. Otherwise bank holding companies might make use of this device to establish interests that were prohibited by the Bank Holding Company Act.

Governor Mills raised the question whether the holding of an option constituted an "interest" by the holder in the company with respect to whose shares the option was held, since an option was not a contract, because there was no obligation for the holder of the option to buy.

In this connection, Governor Balderston questioned the effect, if any, the definition of "interest" had on the final tax certification given by the Board to First Security Corporation on May 9, 1960, permitting it to spin-off to the new corporation the shares of controlled

banks, the shares of the service company of the bank holding company, and certain other assets. To this, Mr. Hexter replied that the Legal Division had considered the question and had concluded that the Board would not be justified in refusing to issue the tax certification, especially in view of the requirements under the Bank Holding Company Act for divorcing banking and nonbanking activities.

Mr. Hackley observed that neither the Bank Holding Company Act itself nor its legislative history threw any light on the definition of the term "interest" as applied to purchase by the old corporation of an option to buy back its Lanston stock, nor had any cases been decided under section 5144(e) of the Revised Statutes. Furthermore, the Board's Regulation P, Holding Company Affiliates - Voting Permits, made no attempt to define the term. So far as could be learned from its files, the Board had occasion to consider the meaning of the term "interest" in section 5144(e) only once, in 1938. This was in the case involving Transamerica Corporation which had been granted a voting permit on the condition that it divest itself of stock in Bankamerica Company, already alluded to by Governor Mills. He noted that the relationship, in respect to Lanston Company, under section 5144(e) of the Revised Statutes was with reference to "securities of any sort" while Section 32 of the Banking Act of 1933, which prohibits certain interlocking relationships between personnel of banks and of companies "primarily engaged," speaks of similar activities with respect only to "stocks, bonds, or other similar securities" and

permits the Board of Governors to make exceptions in "limited classes of cases . . . when in the judgment of the said Board it would not unduly influence the investment policies of such member banks or the advice it gives its customers regarding investments." Under this language, he said, the Board permits interlocking relationships in the case of companies which deal only in securities of the Federal Government and certain Federal agencies. He said that it might be desirable for the Board to propose a ruling that the use of an option to purchase stock constitutes indirect control.

Chairman Martin said that he was impressed by the comment in the Legal Division memorandum of April 29 that no Board action was warranted in this case. He thought that it was both poor policy and bad technique for the Board to write a letter if it did not plan to do anything about an alleged violation. He could see some merit in publishing a ruling based on a hypothetical case as Governor Mills had suggested, but he did not believe that any reference should be made to the taking of the option by First Security Corporation. He would not object to exploring the question further, but he did not favor the Board taking a position on it at this time.

Mr. Hackley commented that in the present case, revocation of the voting permit of the holding company affiliate was the only penalty the Board could impose for wrongdoing of this nature, and since the company was no longer a holding company affiliate the penalty was not

applicable. He assumed that Governor Mills' idea of the hypothetical statement was intended to forestall the use of the option technique in future cases.

A discussion then ensued relating to the manner in which the Board might expect to learn about such option arrangements before the fact. During this discussion Mr. Solomon suggested the advisability of the Board's asking to examine actual contracts. Mr. Hackley referred to the pendency of litigation involving the Mercantile Trust Company of St. Louis. He recalled that in 1934 this bank transferred stock of the Mercantile-Commerce National Bank of St. Louis to certain trustees with an option to repurchase the stock. Although the Board warned the bank that it should not exercise its option, it did so in June 1951 but immediately transferred the stock to another corporation. Since the Board had taken no action against Mercantile Trust, Mr. Hackley said, should the Board publish a ruling to the effect that the use of an option constitutes "indirect control" it might well have an effect on this pending litigation.

Mr. Solomon observed that interpretation of the use of an option to buy stock as constituting "indirect control" of the company whose stock was involved under section 5144(e) of the Revised Statutes became academic in the current context of the Bank Holding Company Act concerning indirect ownership of control.

In further discussion, Governor Mills said that as a result of the points raised at this meeting, his inclination would be to do nothing in the way of writing a letter to First Security Investment Company or publishing a ruling based on a hypothetical case.

Chairman Martin said that this was his general feeling, and there was concurrence with this view by all of the members of the Board except Governor Robertson who stated that, at the least, he would favor having a thorough examination made of all documents relating to a divestment under any similar circumstances.

In response to a suggestion by Governor Szymczak, it was understood that the Division of Examinations would also discuss with representatives of the Office of the Comptroller of the Currency the relationship existing between First Security Savings & Loan Association and First Security Bank of Idaho, N.A., as well as the point raised by Governor Robertson.

Messrs. Hexter and Hostrup and Miss Hart then withdrew from the meeting.

Letter to all Reserve Bank Presidents regarding 1959 budgets (Item No. 3). There had been distributed a draft of letter to all Reserve Bank Presidents transmitting a summary of the 1959 budget experience reports and restating the Board's view that the Board looks upon the Reserve Bank budgets as forecasts of costs and operations for the coming year rather than as ceilings or amounts that can be spent. The letter would notethat the Board's concern was with the fact that 1959 marked the second successive

year in which all of the Reserve Banks overbudgeted for salaries of employees. This situation led the Board to believe that it might be desirable to restate its views with respect to the budget system as just indicated.

Following discussion, unanimous approval was given to a letter to the Presidents of all Federal Reserve Banks in the form of attached Item No. 3.

Appointment of budget committee of the Board. Chairman Martin suggested that, with the approach of summer and impending absences of Board members, it would be desirable to appoint a committee of the Board to review with individual Presidents of the Reserve Banks their budgets for 1961, similar to the procedure followed in making preliminary reviews of those budgets for 1959 and 1960. He proposed that Governors Balderston, Mills, and King, who served as the committee to review the 1960 budgets, also constitute this committee for the 1961 budgets.

There was agreement with Chairman Martin's suggestion.

At this point Mr. Johnson, Director, Division of Personnel Administration, entered the room, and Mr. Kiley withdrew.

Board's health insurance program. There had been distributed a memorandum dated May 19, 1960, from the Division of Personnel Administration with respect to the Board's health insurance program and the actions that should be taken in the light of enactment of the Federal Employees Health Benefits Act of 1959, under which a health insurance program for

all Federal employees, with the Government sharing the cost, would become effective beginning with the first pay period after July 1, 1960. Attached to the memorandum was an abbreviated comparison of the present Board health insurance coverage and the two Government-wide health insurance plans offered under the Federal plan.

Mr. Johnson said that the Legal Division was of the opinion that the new Act was applicable to the Board members and the Board's employees but that there was nothing in the Act to prevent the Board from continuing its present health insurance program. The two present insurance carriers for the Board, Blue Cross-Blue Shield and The Prudential Insurance Company of America, had indicated that they would be willing to continue the Board's contracts provided a minimum enrollment of at least 75 per cent of eligible employees was maintained. He said that the Division of Personnel Administration had the following recommendations to make to the Board on this question:

1. That the Division of Personnel Administration proceed immediately to distribute to the Board's employees full information in regard to the health insurance coverage available under the Health Benefits Act of 1959.

2. That the Division of Personnel Administration then conduct a written poll of all employees to determine whether the required 75 per cent of the Board's employees would continue their present coverage.

3. That the Division of Personnel Administration be authorized to proceed with the registration of employees for the Federal Health Insurance program, and further that the Board authorize contributions toward the cost of this insurance in accordance with the Health Benefits Act.

4. If the required 75 per cent minimum enrollment requirement in the Board's health insurance program can be maintained, it was recommended that this program be continued concurrently with the Government Health Insurance program, with the provision that the Board change its schedule of contributions toward the cost of this insurance to conform with the dollar amounts specified by the Government program, including reducing the Board's contribution for female employees with non-dependent husbands.

Mr. Johnson observed that recommendation No. 4 provided for reducing the Board's contribution toward the cost of family coverage for female employees with non-dependent husbands in conformance with the Government contribution schedule. Should this contribution be reduced, an existing fringe benefit would be decreased, reducing the attractiveness of the Board's plan for this group. However, if the Board's contribution were not reduced, there would be an inequity between the contribution to employees who enroll under the Government plan as compared with employees who continue coverage under the Board plan. Also, the Board would be placed in a position of contributing more toward the cost of insurance under its own plan than is authorized under the Government plan. Mr. Johnson noted further that some of the benefits offered by various Government plans were slightly more liberal than the present Board coverage. The Government plans provided full coverage for employees who retire after the effective date of the Act (July 10, 1960), whereas coverage is reduced considerably for retirees under the present Board plan. Another consideration might make the Government plans more attractive to some employees: if an employee declines to enroll for a Government plan, he

will not again have an opportunity to enroll until October 1961 and then approximately once every three years thereafter.

Among the additional factors brought out was that the Government plan provides survivorship benefits for dependents of retired and active employees, with employer contributions continued, whereas the Board's present coverage does not provide this benefit. Another advantage of the Government plan was the provision for free coverage for an employee and his eligible dependents for periods up to one year's leave of absence without pay. Under the present Board plan, retirees are eligible for slightly reduced basic hospitalization coverage and those who retired after November 17, 1957, are eligible for major medical insurance. If the present Board plan were not continued, major medical coverage would have to be dropped for about 22 retired employees. About 75 per cent of present Board retirees are now covered by standard hospital-surgical insurance, and there is a good chance that coverage could be continued even though the Board's present plan should be discontinued for active employees.

Mr. Johnson then proceeded to summarize in greater detail the provisions of the Government plans and to compare benefits and costs under those plans with the present hospital-surgical and major medical coverage provided under the existing Board contracts.

During the discussion that followed, Governor Shepardson inquired whether, if employee participation in the Board's plan should initially be 75 per cent and subsequently drop below that figure, the Board's contracts with Blue Cross-Blue Shield and Prudential would be cancelled at once.

Mr. Johnson replied that he did not think this would be the case. It was contemplated that contracts would be signed with Blue Cross-Blue Shield and Prudential that would run to October 1961 for those employees who desired to remain in that plan, and it was hoped that this could be arranged with no change in present rates.

At Governor Mills' suggestion, it was understood that the Board would meet again at 2:30 p.m. this afternoon to give further consideration to the health insurance program.

Governor Balderston and Mr. Noyes withdrew during the preceding discussion, and Messrs. Farrell and Johnson withdrew at its conclusion.

Hearing on BancOhio Corporation application re The Hilliard Bank. Mr. O'Connell referred to the informational memorandum distributed to the Board under date of March 10, 1960, relating to the application of BancOhio Corporation, Columbus, Ohio, for prior approval of acquisition of shares of The Hilliard Bank, Hilliards, Ohio, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956. He recalled that on February 20, 1960, there was published in the Federal Register the Board's Notice of Tentative Decision on this application by BancOhio Corporation. The

Notice advised that the Board proposed to deny the application and allowed until March 7, 1960, as a period in which written comments or objections on the proposed action might be submitted. On April 1, 1960, the Board issued a Notice of Order on request for hearing, and on April 15, 1960, amended the Notice to provide for holding this hearing at the offices of the applicant on the latter's request. Mr. O'Connell went on to say that the Board's Order of April 1 setting the hearing provided for the submission of statements by other parties and gave the opportunity to testify at the hearing to such persons. Pursuant to this provision, the Department of Justice had submitted a 2-1/2 page letter to the hearing examiner relative to the anti-trust implications of the application. As a result of the objection of the applicant to the inclusion of this statement in the record, the Legal Division was planning a conference with the applicant at the Board's offices this coming Wednesday, May 25, at 10:00 a.m., in order to resolve the question whether the statement of Justice should be included in the record. The Justice Department had indicated to the Legal Division that it was looking to the latter for a statement of the Board's position on this matter. The Legal Division was planning to send a notice of this pre-hearing conference to Justice for its information.

Mr. O'Connell said that he anticipated the applicant would present the following arguments in an effort to exclude Justice from the hearing: (1) the Department of Justice is not an interested party;

(2) the statement by Justice purports to be evidence and is objectionable in form; (3) even if not regarded as evidence, the statement of Justice goes too far by expressing an opinion as to whether the application should be approved or denied, thereby exceeding that Department's power under the bank merger law; and (4) should Justice be permitted to make a statement at this hearing, the writer of the letter should be present in person and be subject to cross-examination. It was the intention of the Legal Division, Mr. O'Connell said, to comment on each of these arguments as follows: (1) with respect to argument No. 1, it could be pointed out that neither the Board's Order of April 1, 1960, in this case nor the amended Order of April 15, 1960, stipulated that statements would be received only from interested parties; (2) with respect to the second anticipated argument of applicant, it could be contended that the statement by Justice was expert testimony and not evidence, it being noted that the Department's letter consisted largely of extracts from the applicant's statement; (3) it could be contended in commenting on the third anticipated argument of applicant that the letter from Justice does not purport to be a recommendation for approval or disapproval of the application and that it restricts itself to the fifth statutory factor of the Bank Holding Company Act, namely "the effect of the transaction on competition (including any tendency toward monopoly)." Finally, with respect to the expected contention by the applicant that the writer of the letter from Justice should be subject to cross-examination by counsel

for applicant during the hearing, the Legal Division could comment that this was a judgment to be made by the hearing examiner and that if the applicant produces evidence for the record to refute the basis relied upon by Justice, there would be no objection to statement by applicant of these additional facts. Mr. O'Connell concluded his statement by saying that the reason for bringing this matter to the attention of the Board was to ascertain whether the approach indicated by the Legal Division was agreeable to the Board.

Governor Mills inquired whether the inclusion in the record of this case of the letter referred to from the Justice Department would be ruled out on the grounds that the record had been closed.

Mr. O'Connell replied that the record had not been closed and that the hearing scheduled for May 31 in Columbus, Ohio, in this case was de novo. He added that the Board would be the ultimate judge of whether or not the application should be approved or denied, based upon the record produced at the forthcoming hearing. Such record appropriately could include the statement by Justice on the application.

None of the members of the Board indicated an objection to the procedure contemplated by the Legal Division in this case, as outlined by Mr. O'Connell.

The meeting then recessed and reconvened in the Board Room at 2:30 p.m. with the following in attendance:

Chairman Martin
Mr. Balderston
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Sherman, Secretary
Mr. Johnson, Director, Division of
Personnel Administration

Board's health insurance program. Discussion of the proposed revision of the Board's health insurance program as presented in the memorandum from the Division of Personnel Administration dated May 19, 1960, was resumed, with Mr. Johnson commenting on the costs and features of the various plans available to Board employees under the Government program that would become effective the first pay period after July 1, 1960. As he had indicated at the morning session, the Board's Legal Division was of the opinion that the Federal Employees Health Benefits Act was applicable to the Board members and its employees, but there was nothing in the Act to prevent the Board from continuing its present health insurance program if it wished to do so and provided a sufficiently large proportion of the Board's employees elected to continue the present coverage.

In the discussion that followed, Governor Mills stated that he gathered that the Division of Personnel Administration leaned toward continuation of the existing Board plan. His own view was that, while this was a matter deserving of careful study, he was inclined to feel that the Board's present plan should be superseded as rapidly as possible

by the Government plans available under the new Health Benefits Act. In any event, Governor Mills said, he felt new employees entering the Board's organization should not have the option of entering the existing plan even if it were to be continued, and present employees should be reluctantly given the option of continuing the existing plan.

Mr. Johnson stated that the Division of Personnel Administration was not as much in favor of continuing the existing plan as Governor Mills might have assumed. He had gotten the impression, however, that a substantial portion of the Board's employees desired to continue the existing plan, and it was for this reason that the Division of Personnel Administration recommended that a written poll of all employees be conducted to determine whether the required 75 per cent of Board employees would continue the present program. Mr. Johnson noted that the Government plan was made available to Board members and Board employees in any event, under the terms of the Health Benefits Act which the Legal Division had held applicable to the Board and its employees, and from the standpoint of administration, the easier procedure would be to have only the one plan.

In response to a question from Chairman Martin, Mr. Johnson then reviewed the procedure contemplated by the recommendations contained in the Personnel Division's memorandum of May 19, including the distribution to Board employees of full information regarding the coverage available under the Health Benefits Act and the holding of meetings to explain such

coverage; the proposal to conduct a written poll of all employees to determine whether they wished to continue the present coverage, such poll to be completed by June 9; the recommendation of the Division of Personnel Administration that it be authorized to proceed after June 9 with the registration of employees for the Federal Health Insurance Program with the understanding that the Board authorized contributions toward the cost of such insurance in accordance with the Health Benefits Act, and, provided not less than 75 per cent of employees indicated a desire to continue the present Board's Health Insurance Program, that that program also be continued along with the Government program with the provision that the Board change its schedule of contributions toward the cost of this insurance to conform with the dollar amounts specified by the Government program, including reducing the Board's contribution for female employees with non-dependent husbands. Mr. Johnson said that the adoption of any of the plans available to Board employees under the Government program would result in an increase in the cost to Board employees for coverage as compared with the present Board plan for basic and major medical coverage. If the existing plan were continued, he anticipated that a contract would be written at present rates to run from July 10 until October 1961. No assurance could be given, of course, as to what changes in the existing Board plan might take place after that date. Mr. Johnson also noted that a small number of Board employees presently were covered by Group Health and that in those instances the

Board also was paying a portion of the cost, its contribution being in the same dollar amount that would have been made if the employees so covered had been participating in the Blue Cross-Blue Shield-Prudential program under which most Board employees were now covered. Mr. Johnson added that it was implicit in the recommendation of the Division of Personnel Administration that the Board would continue to make a contribution on behalf of those employees who continued Group Health insurance (which was a plan available under the Government program), with the Board's contribution being adjusted to the same amount that would be payable under the Health Benefits Act program. He illustrated the costs by stating that under the present Board plan for family coverage, the Board makes a contribution of $6.88 a month compared with an employee cost of $6.87 a month, or a total of $13.75. Under the so-called "Service Benefit" (Blue Cross-Blue Shield plan) of the Government program, the Board's contribution for a family low option coverage would be $6.76 and the employee's payment $7.45 or a total of $14.21. Cost for the high option family plan would total $19.37 with the Board's contribution $6.76 and the employee payment $12.61.

Chairman Martin said that he doubted the desirability of the Board's indicating to employees what plan they should take. He thought it desirable to give all employees the information that was available regarding the plans, although he realized many of them might not have the desire or time to study them fully, and to have each individual decide for himself what if any plan best suited his needs.

Governor Robertson stated that he understood this was the procedure contemplated under the recommendations of the Division of Personnel Administration and that the first step after distribution of information on the various plans would be to poll the employees to determine whether they wanted to continue the present coverage. After that decision, in the event less than 75 per cent of the staff indicated their desire to continue the present plan, the selection would have to be made among the Government plans.

Mr. Johnson stated that this was correct, adding that one additional matter that would have to be decided by the Board was whether, if the present Board plan were retained, it should be available to new employees or whether they should have only the option of entering one of the Government plans.

Governor Shepardson commented that this was a decision that need not be taken until after the June 9 poll of employees. If the employees failed to continue the present plan, that question would be answered without any action on the part of the Board.

Chairman Martin then noted that at the morning session he had raised the question whether it was desirable, from the standpoint of good personnel policy, for the Board to decrease its contribution toward the health insurance by a few cents a month per employee, as was suggested in the Personnel Division's memorandum.

Mr. Johnson commented that the amount that Government agencies could contribute toward the cost of the Government plan was fixed and that the Board would be bound by that limit for employees electing one of the Government plans. In any event, he would not anticipate difficulty on this point, even though there was a fairly substantial reduction in the Board's contribution in the case of female employees with non-dependent husbands who were eligible to enroll for family coverage. His recommendation would be that the Board's contribution in the event the present Board plan were continued be made to conform to the same amount that it could contribute toward the cost for employees who entered the Government plan, since otherwise employees using the Board plan would be receiving a somewhat higher contribution than would those using the Government plan.

Chairman Martin said that this answered his question.

After some further discussion of the Health Insurance program, Governor Shepardson stated in response to a question from Chairman Martin that his study of the program had caused him to reach the conclusion that the steps recommended in the memorandum from the Division of Personnel Administration should be taken; that is, distribution of information, polling employees regarding the present plan, registration of employees for the Government plan with contributions toward its cost in accordance with the Health Benefits Act and, if the present Board program was desired by the required minimum of 75 per cent of the Board's staff, continuation of that program concurrently with the Government Health Insurance program

and contribution by the Board to the cost of that plan on the same dollar basis as that specified for the Government program.

Chairman Martin inquired whether there was disagreement with Governor Shepardson's suggestion, and in the absence of comment, it was agreed that the Board approved the recommendations as summarized by Governor Shepardson and as set forth more completely in the memorandum from the Division of Personnel Administration dated May 19, 1960.

The meeting then adjourned.

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

Memoranda from appropriate individuals concerned recommending the following actions affecting the Board's staff:

Appointments

William Sutton Potter as Legal Assistant, Legal Division, with basic annual salary at the rate of $6,585, effective May 31, 1960.

John D. O'Berg as Operator, Tabulating Equipment, Division of Administrative Services, on a temporary basis, with basic annual salary at the rate of $3,495, effective the date he assumes his duties.

Salary increase

Janet Hart, Assistant Counsel, Legal Division, from $8,810 to $9,890 per annum, effective May 29, 1960.

No. 4) Letter to the Federal Reserve Bank of Cleveland (attached Item examiner.) approving the designation of Charles Beck as special assistant

Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 1
5/23/60

OFFICE OF THE CHAIRMAN

May 23, 1960

My dear Governor:

I am pleased to acknowledge your letter of May 2 concerning the establishment of branches of national banks in the Commonwealth.

As you are aware, it has been the practice of the Board, in considering applications of The First National City Bank of New York for permission to establish new branches in Puerto Rico, to request the views of the Secretary of the Treasury of the Commonwealth prior to authorization of the branches, in all instances since the Commonwealth was created in 1952.

I am confident the Board has benefited from the views of the Commonwealth banking authorities in consideration of these applications and that it will continue to consult with your banking authorities in considering similar applications in the future.

As expressed to you at the time of the Federal Reserve mission appointed at your request to study certain phases of the banking system in Puerto Rico, the Board of Governors and the System desire to cooperate with you in any matter contributing towards closer relationships of the System with Puerto Rico.

With all good wishes.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

The Honorable Luis Munoz Marin,
Governor of Puerto Rico,
La Fortaleza,
San Juan, Puerto Rico.

TELEGRAM
LEASED WIRE SERVICE

Item No. 2
5/23/60

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

S-1740

May 23, 1960.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

As you know, the recently enacted bank merger legislation approved May 13, 1960, requires the Board, before acting on a proposed merger or other absorption, to request a report "on the competitive factors involved" from the other Federal banking agencies and the Attorney General.

It seems clear from the Act itself and from its legislative history that such report is intended to be limited to the competitive factors and that it is not contemplated that the report would contain any recommendation as to approval or disapproval of the merger. The Report of the House Banking and Currency Committee makes it clear that the banking agencies are expected to express an opinion only with respect to the competitive factors involved. On the floor of the Senate, Senator Fulbright stated that the Attorney General would not be expected to "consider or report on the various banking factors involved, nor was he expected to make any recommendation as to the action the banking agencies should take on the basis of consideration of all of the factors involved." Presumably, the same statement applies to reports from the banking agencies.

In these circumstances, the Board, in responding to requests for reports from the Comptroller of the Currency and the Federal Deposit Insurance Corporation, will expect to comment only upon the effect of

the proposed merger upon competition and will not make any definite recommendation as to action by those agencies with respect to proposed mergers. For this reason, your Bank, in response to requests from the Board, should similarly limit comments with respect to proposed mergers subject to the jurisdiction of the Comptroller or the FDIC to the competitive factors involved, without recommending approval or denial of the application.

(Signed) Merritt Sherman
Sherman

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

Item No. 3
5/23/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 23, 1960.

Dear Sir:

The Board's review of the 1959 Budget Experience Reports of the Federal Reserve Banks raised, amid much that was gratifying, some concern about the over-budgeting for salaries of employees. As may be noted from the enclosed summary of the reports received from all Banks, actual salaries on a System basis last year were $3.1 million (about 4 per cent) under the budget. Standing alone, this would not be cause for disturbance. The Board's concern, however, is with the fact that 1959 marked the second successive year in which all of the Reserve Banks over-budgeted the amount provided for salaries of employees. This situation has led the Board to believe that it might be desirable at this time to restate its views with respect to the budget system.

The Board looks upon the Reserve Bank budgets as forecasts of costs and operations for the coming year, rather than as ceilings on amounts that can be spent. Such a system does not necessitate the provisions for contingencies that are frequently found in appropriation-type budgets. Therefore, it is the Board's hope that the annual budgets will reflect as fully as possible actual expectations, and will take into account possible improvements in efficiency, probable difficulties in filling positions, and other factors usually responsible for over-budgeting employees' salaries.

It is recognized that, if this kind of tight budgeting is followed, from time to time salary costs will be in excess of the amounts provided in the budgets. In fact, the Board would expect that in any one year as many Banks might be over their budgets as were under, and that over a period of years actual expenditures of any one Bank might be over its budget as often as they are below it. The Board's concept of the budget procedure assumes the same careful consideration of the reasons for over-budgeting as for over-expenditures.

Let me emphasize at this point that I sincerely hope this letter will not be construed as implying that the Board is more interested in performance close to budget than it is in efficient operations, or that it minimizes the recognition due those who have been able to effect savings.

On the contrary, the Board believes that the stern challenge of a tight budget will spur efforts toward savings and will make more meaningful the achievement when savings are accomplished under such conditions.

The Board suggests that each year, when the budgets are being planned, it might be well to convey these views to those persons at your Bank who are responsible for the budget proposals. The enclosed analysis of the 1959 Budget Experience Reports may be helpful in this connection.

Sincerely yours,

Wm. McC. Martin, Jr.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 4
5/23/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 23, 1960

Mr. G. T. Quast, Chief Examiner,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Quast:

In accordance with the request contained in your letter of May 11, 1960, the Board approves the designation of Charles Beck as a special assistant examiner for the Federal Reserve Bank of Cleveland for the purpose of participating in examinations of banks except The Fifth Third Union Trust Company, Cincinnati, Ohio.

The authorization heretofore given your Bank to designate Mr. Beck as a special assistant examiner is hereby canceled.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.