

Minutes for June 27, 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

A series of handwritten initials and signatures are written over horizontal lines corresponding to the names of the board members. The initials for Chm. Martin are circled. The initials for Gov. Szymczak are written in a stylized, bold font. The initials for Gov. Mills are written in a cursive script. The initials for Gov. Robertson are written in a simple, blocky font. The initials for Gov. Balderston are written in a cursive script. The initials for Gov. Shepardson are written in a cursive script. The initials for Gov. King are written in a cursive script.

Minutes of the Board of Governors of the Federal Reserve System  
on Monday, June 27, 1960. The Board met in the Board Room at 10:00 a.m.

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

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. Koch, Adviser, Division of  
Research and Statistics  
Mr. Landry, Assistant to the Secretary  
Mr. Keir, Chief, Government Finance Section,  
Division of Research and Statistics

Report on money market. Messrs. Thomas and Keir reported on money market developments and member bank reserve positions, with particular regard to the effects on the Government securities market of a possible cash surplus during the current fiscal year.

Following this presentation Messrs. Koch and Keir withdrew from the meeting and the following entered:

Mr. Hackley, General Counsel  
Mr. Farrell, Director, Division of Bank Operations  
Mr. Masters, Associate Director, Division of Examinations  
Mr. Johnson, Director, Division of Personnel Administration  
Mr. Kelleher, Director, Division of Administrative Services  
Mr. Connell, Controller  
Mr. Hexter, Assistant General Counsel  
Mr. Daniels, Assistant Director, Division of Bank Operations  
Mr. Smith, Assistant Director, Division of Examinations  
Mr. Sprecher, Assistant Director, Division of Personnel  
Administration  
Mr. Horbett, Special Consultant, Division of Bank Operations  
Mr. Kakalec, Assistant to the Controller

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

	<u>Item No.</u>
Letter to the Federal Reserve Bank of Richmond approving a change in the Blue Cross-Blue Shield hospitalization plan at the Baltimore Branch.	1
Letter to the Presidents of all Federal Reserve Banks regarding revision of the Federal Reserve loose-leaf references pertaining to personnel matters.	2

Letter to Brownfield State Bank & Trust Co. There had been circulated a memorandum from the Division of Examinations dated June 20, 1960, attaching a draft letter to the Brownfield State Bank & Trust Co., Brownfield, Texas, approving an investment in bank premises made in 1959 in excess of the amount shown in the bank's capital accounts.

Governor Balderston raised a question whether, in view of the fact that the excess investment in bank premises had been made last year without the Board's permission, it would be advisable to call to the bank's attention that it had violated section 24A of the Federal Reserve Act. He had no objection to approving the investment but felt it undesirable for banks to proceed with such expenditures and come in a year later to request the required approval.

Mr. Masters stated that he was not entirely familiar with the circumstances of this case, and at Chairman Martin's suggestion it was

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understood that information about these circumstances would be obtained and the matter brought back to the Board for consideration at a later meeting.

Request for confidential memoranda supplementary to Reserve Bank examination reports. At the meeting on June 22, 1960, there had been a preliminary discussion of a letter from Mr. Patman, Chairman of Subcommittee No. 3 of the House Banking and Currency Committee, dated June 21, 1960, in which he requested that he be furnished the confidential memoranda supplementary to the examination reports for the New York, Chicago, and San Francisco Reserve Banks for the years 1957-1959. Following that discussion, a memorandum from the Division of Examinations dated June 24, 1960, had been distributed pointing out that accompanying the report of examination of each Federal Reserve Bank are two confidential memoranda, each addressed to the Director of the Division of Examinations; one of these comments on management and other matters not covered in the report of examination, and the other presents fairly detailed information regarding the organization and functioning of the auditing department of the Bank. After listing reasons for not divulging the contents of these confidential memoranda to persons outside the Board's organization, the memorandum concluded that should the Board decide to make the confidential memoranda available, it might wish to consider an arrangement whereby they would be retained in the custody of a member of the Board's staff while at the same time affording



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Representative Patman or designated members of the Subcommittee's staff the opportunity to satisfy themselves as to their contents.

Chairman Martin reported that he and Mr. Shay visited Mr. Patman this morning and arranged that on Thursday, June 30, Mr. Shay would show Mr. Patman the confidential memoranda that he had requested for the three Reserve Banks. Mr. Shay was to remain while Mr. Patman went through these reports, which he recognized were confidential. Should Mr. Patman feel that he needed to use these reports for the work of his Subcommittee, he would subpoena them, a right that he possesses as Chairman of the House Select Committee on Small Business. The Chairman then called for comments of the Board on this arrangement.

Governor Robertson said that he would not object to this procedure. However, he felt that it was fraught with danger since it would appear to open the door to Mr. Patman's examining such confidential memoranda for the past several years, and certain of the material in older memoranda could be embarrassing to officials of the Reserve Banks and might disrupt relations between the Board's examiners and the Banks.

The Chairman replied that the question at issue was whether to require Mr. Patman to subpoena this material before making it available to him. As he saw it, following disposition of this question, the next question was whether to abandon the preparation of these confidential memoranda. His personal view was that their disadvantages might outweigh their advantages.

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Discussion then turned to a recent statement by Mr. Patman that the form of the examination reports of the Reserve Banks had been changed during the past year or two so that there was less detail made available on certain types of expenditures by the Banks.

Mr. Masters commented that there had been no attempt to conceal expenses previously detailed in these reports. The fact of the matter was that in recent years the expenses in question had largely disappeared.

It was then agreed that the procedure proposed by Chairman Martin, according to which Mr. Shay would show the confidential memoranda that accompanied the specified reports of examination to Mr. Patman but remain in his presence during their perusal, would be followed.

The Chairman then noted that it was likely Mr. Patman would ask him during his testimony tomorrow before Subcommittee No. 3 why the Reserve Banks and the Board did not have rules prohibiting employees from purchasing Government securities. Mr. Patman had expressed the belief that there should be a flat rule prohibiting employees of the Board and the Banks from purchasing marketable Treasury issues. Chairman Martin inquired of Mr. Smith whether the Board's examiners made any attempt to find out what marketable Government securities were held by Reserve Bank officers and employees.

Mr. Smith responded that the examiners made no attempt to identify what Treasury securities were owned by officers or employees of Reserve

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Banks. If, however, the reports of indebtedness that are filed by all officers and more senior employees at the Reserve Banks gave any indication that an individual might be operating a trading account in securities or commodities, further investigation would be made and exception would be taken to any such practice by the employing Bank as well as by the Board's examiners.

During the discussion that followed, attention was called to the fact that under date of September 16, 1958, each Reserve Bank was provided with a copy of the Code of Ethics for Government Service endorsed by the 85th Congress in Concurrent Resolution 175 and that at the same time the Resolution was distributed to all members of the Board's staff. This Resolution was again called to the attention of the Reserve Banks in the Board's letter of April 11, 1960 (S-1735; F.R.L.S. #9055) relating to the acceptance of gifts by Reserve Bank employees. Reference also was made to the Board's letter of June 25, 1954, transmitting to the Chairmen of all Federal Reserve Banks a summary of the rules or understandings in effect at the Reserve Banks relating to confidential affairs of the Banks and suggesting that full information regarding this subject be kept before all of the directors, officers, and employees of the Banks.

Secretary's Note: This letter and summary, which related specifically to rules regulating dealings by Federal Reserve Bank personnel in Government securities, was a direct outgrowth of questions asked of Chairman Martin by Congressman Patman when the Chairman testified before the Joint

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Committee on the Economic Report on February 3, 1954, at which time Mr. Patman inquired as to the possibility of Federal Reserve personnel profiting from inside information on System open market operations. Subsequently, this letter and summary were included in hearings before the Committee on Banking and Currency of the House of Representatives on the Financial Institutions Act of 1957 (Part 2, page 1681, question 21).

Among matters commented on during the discussion were the possible advantages and disadvantages of a flat rule prohibiting the ownership by System personnel of Treasury securities other than savings bonds.

Chairman Martin concluded this part of the discussion with the statement that this was a problem of conflict of interest and that the Board should review the matter periodically because of the special relationship of the Federal Reserve System to the Government securities market.

Messrs. Thomas and Smith then withdrew from the meeting.

Draft of statement by Chairman Martin on H. R. 8516 and H. R. 8627.

In accordance with the understanding at the meeting on June 24, a redraft of statement to be made by Chairman Martin on June 28, 1960, before Subcommittee No. 3 of the House Banking and Currency Committee had been prepared. The statement would relate to H. R. 8516, a bill to retire stock in the Federal Reserve Banks, and H. R. 8627, a bill to substitute interest-bearing deposits at the Reserve Banks for the Reserve Bank stock now owned by member banks.



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Several suggestions for changes in the statement were made, following which it was unanimously approved.

At this point Mr. Hexter withdrew from the meeting.

Redraft of reply to letter from Chairman Hardy. A second revision of replies to questions contained in a letter dated June 10, 1960, from Chairman Hardy of the Foreign Operations and Monetary Affairs Subcommittee of the Committee on Government Operations of the House of Representatives had been distributed in accordance with the understanding at the Board meeting on June 24.

Mr. Sherman indicated the nature of certain revisions made in the draft replies to several of the questions, and following a discussion it was agreed that a final draft of the replies to Chairman Hardy's letter would be prepared for the Board's consideration on Wednesday, June 29.

The meeting then adjourned.

Secretary's Note: Acting in the absence of Governor Shepardson, Governor Robertson today approved on behalf of the Board the following items:

Memorandum from Messrs. Marget and Noyes dated June 23, 1960, recommending that the members of the Board's staff listed as follows be authorized to attend two-week sessions as indicated at the Merrill Center for Economics, Southampton, Long Island, and that actual necessary travel expenses and reimbursement on a mileage basis if a privately owned automobile was used be paid by the Board in accordance with the Board's travel regulations, with the understanding that room and meals at Southampton would be provided by the Merrill Center. (It should be noted that this action did not include approval of the payment of travel expenses incurred on

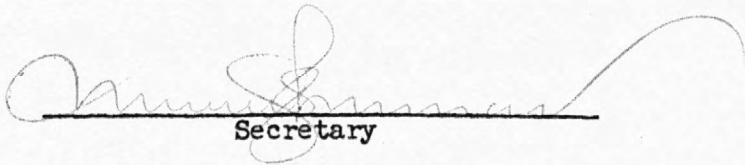
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weekends away from Merrill Center up to the cost of transportation charges from Southampton to Washington, D. C., and return.)

<u>Name and title</u>	<u>Session</u>
Murray Altmann, Economist, Division of Research and Statistics	June 27 - July 8
Ramsay Wood, Senior Economist, Division of Research and Statistics	July 11 - July 22
Frederick R. Dahl, Economist, Division of International Finance	July 25 - August 5
Robert Solomon, Chief, Capital Markets Section, Division of Research and Statistics	August 8 - August 19

Letter to the Federal Reserve Bank of Boston (attached Item No. 3) approving the designation of Joseph B. McBride as special assistant examiner.

  
Secretary

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

Item No. 1  
6/27/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 27, 1960



Mr. Edward A. Wayne,  
First Vice President,  
Federal Reserve Bank of Richmond,  
Richmond 13, Virginia.

Dear Mr. Wayne:

This refers to your letter of June 16, 1960, advising of a proposed change in the Blue Cross-Blue Shield hospitalization plan at the Baltimore Branch to increase the allowance toward the cost of a private room from \$10 per day to the average semi-private rate for the hospital concerned.

The Board of Governors approves the assumption by the Branch of two-thirds of the additional expense involved in providing this increased benefit.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 2  
6/27/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 27, 1960.



Dear Sir:

A review of the Federal Reserve loose-leaf references pertaining to personnel matters indicates that certain instructions have become obsolescent because of changes in policy, inclusion in subsequent letters, or the passage of time. Consequently, the following letters are no longer applicable, and will be omitted from the loose-leaf service at the time of the next revision.

<u>F.R.L.S.</u>	<u>Letter and Date</u>	<u>Subject</u>
3082	S-965 (3-10-47)	Photographs of directors and officers intended for publication in Federal Reserve Bulletin
9002	X-9605 (6-4-36)	Leave of absence and expenses of Board employees while attending Graduate Schools of Banking
9059	S-279 (8-13-41)	Identification at Public Utilities Companies when requesting information
9062	S-582 (11-10-42)	Status of employees joining Waves, Waacs, Merchant Marines, etc.
9152.1	- (11-16-51)	Discontinuance of individual Bank Group Life Insurance Contracts
9154	S-1108 (5-6-49)	Supplemental payments to certain retired employees

Very truly yours,

A large, stylized handwritten signature of Merritt Sherman is written over the typed name and title. The signature is in dark ink and flows across the bottom of the page.

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. 3  
6/27/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 27, 1960

Mr. B. F. Groot, Vice President,  
Federal Reserve Bank of Boston,  
Boston 6, Massachusetts.

Dear Mr. Groot:

In accordance with the request contained in your letter of June 20, 1960, the Board approves the designation of Joseph B. McBride as a special assistant examiner for the Federal Reserve Bank of Boston for the purpose of participating in examinations of Depositors Trust Company, Bangor, Maine; The Merrill Trust Company, Bangor, Maine; The Connecticut Bank and Trust Company, Hartford, Connecticut; and Rhode Island Hospital Trust Company, Providence, Rhode Island.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

