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Rev. 10/59

Minutes for July 22, 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 WM

Gov. Szymczak MS

Gov. Mills

Gov. Robertson R

Gov. Balderston CCB

Gov. Shepardson CNS

Gov. King

Minutes of the Board of Governors of the Federal Reserve System on Friday, July 22, 1960. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Sherman, Secretary
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Nelson, Assistant Director, Division of Examinations
Mrs. Semia, Technical Assistant, Office of the Secretary
Mr. Hooff, Assistant Counsel
Mr. Veenstra, Technical Assistant, Division of Bank Operations

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, Chicago, and San Francisco on July 21, 1960, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those banks.

Proposed merger of Harris Trust and Chicago National. A memorandum dated June 30, 1960, from the Division of Examinations had been circulated in connection with the application for the Board's consent to the proposed merger of Harris Trust and Savings Bank and Chicago National Bank, both of Chicago, Illinois, under the provisions of subsection (c) of section 18 of the Federal Deposit Insurance Act, as amended by the act of May 13, 1960. At the request of Vice Chairman Balderston, Mr. Nelson reviewed the circumstances surrounding the case. Harris Trust had over $600 million in deposits and Chicago National had about $184 million. If this merger was consummated, Harris Trust would retain its present rank as the third largest bank in Chicago. Both banks were in good condition, had adequate capital, capable management, and satisfactory earnings prospects, and prospects for the continuing bank would be satisfactory. The banks expected to effect some economies through the merger that might increase their earnings.

There were 79 banks in Chicago of which 13 were in the central business district, Mr. Nelson continued. Eighteen of the general business district banks were within a mile radius of Harris Trust, which it was thought should provide sufficient competition. Harris Trust had been operating primarily as a wholesale bank, that is, dealing with the largest depositors and accounts and with a good volume of business outside the metropolitan area of Chicago. Chicago National's business had been confined primarily to the Chicago area. It had started as an instalment loan bank and was still principally in the consumer credit and real estate mortgage fields. Both banks had fiduciary powers. No branches were involved, and Chicago National would be moved into the quarters of Harris Trust about a block from its present location.

Mr. Nelson went on to say that Harris Trust did not enter the consumer credit field until the fall of 1959; its officers were not so well versed in that field as were those of Chicago National, who would thus strengthen the management of Harris Trust if the merger took place. Also, the merger would increase the lending capacity of Harris Trust and therefore enable it to compete more effectively with the other two largest institutions in the city. It was believed that the merger would enable Harris Trust to provide some additional services for the area that the smaller bank could not provide.

Governor Robertson said that he would vote against approval of this merger application. In analyzing the situation, he had come to the conclusion that there was no question but that the proposed merger would result in a diminution of competition, where the third largest and the seventh largest banks in Chicago would be put together. Even the seventh largest bank was now ranked among the top 200 banks of the country; it was clearly already a large bank itself. Whenever there was a diminution of competition, he thought there should be something to offset it to justify approving the merger. The only offsetting circumstance he could find was that upon becoming a billion dollar bank, still larger than it already was, Harris Trust would be able to compete better with the two largest banks in Chicago. Neither Harris Trust nor Chicago National now had any loans in their portfolios that approached their maximum loan limits; each was in a position to take care of larger borrowers than it was now doing. Both banks are in good condition, both are profitable, both have good managements. Governor Robertson said that under these circumstances, he could see nothing to be gained from the standpoint of the public interest that would offset the diminution of competition that would result. Such a merger in Chicago would be even worse than it would be in an area where branch banking was permitted, in his opinion, since in this case one bank would be eliminated and with it one banking office and one alternative source of banking services.

Governor Robertson went on to say that if the merger statute meant anything, he thought it meant that a careful eye should be placed on all mergers with a view to seeing to it that competition was preserved and that mergers that were not in the public interest did not take place. If the Board approved this proposal, he could not see any situation where disapproval of a merger between competing banks would be called for unless the two largest banks in an area were being consolidated, making a Goliath in comparison with smaller banks. In his opinion, there were disadvantages in this proposed merger of the exact nature to which the recently enacted statute was intended to apply.

After commenting on the provisions in Public Law 86-463 requiring annual reports to the Congress describing mergers and consolidations approved by the Federal bank supervisory agencies, Governor Robertson pointed out that the Department of Justice had stated views that this merger would not be in the public interest; consequently, it would be necessary for the Board to see in this case some factor sufficient to outweigh the diminution of competition that would result, if it were to justify approving the merger.

Governor Shepardson said that he would not add to the substance of the comments Governor Robertson had made and that he endorsed those comments.

Governor Balderston referred to the letter dated June 24, 1960, from Acting Assistant Attorney General Bicks reporting on the case, which took the position that the proposed merger would increase banking concentration in Chicago and would have an adverse effect on competition. He had thought at first that this might be a more or less standard letter that the Department of Justice would send in such cases, but upon reading it several times he had concluded that the points it made were unanswerable. The principle that might argue for the merger was that in any area the medium-sized banks had to have a full line of credit in order to compete with other banks. In this case, Harris Trust had ventured into the retail banking field on its own, and the merger would strengthen that side of its business. He was further persuaded by Governor Robertson's arguments, and he did not see that the Board had cogent reasons for denying the view expressed in the letter from the Department of Justice.

Governor Mills said that he was bothered by the tenor of the discussion that an adverse decision in this case would in a sense suggest that bigness or size was the criterion of assumed evil in mergers. If there was a denial of this application, he would think that the Board's decision of yesterday approving the merger in Wyomissing, Pennsylvania, had been in error because in a real sense he was unable to distinguish between the facts represented in that situation from those presented by the Harris Trust application, other than that Harris Trust competed with two banks of substantially greater size. When it came to the public interest and the factor of competition, Governor Mills said that there could be competition upwards as well as downwards. In the Harris Trust case, the proposed merger would enhance competition upwards in the Loop area of Chicago, where the banks are substantial in size and where enhanced size offered a better opportunity for competition between banks that are relative equals. In his view, that kind of enhancement would be in the public interest. There could be various interpretations of the bank merger legislation, depending on individual views and temperaments and outlooks regarding the law. His own interpretation, Governor Mills said, had consistently been that the public interest comprehended all activities that were consonant with the advantages of the parties that were subject to a merger proposal. In this case, he could not discover that effectuation of the wishes of the banks was detrimental to the public interest. The elimination of one competitive unit did not loom very important in his judgment when all of the factors of the present situation were considered and the resulting larger unit could compete more effectively. In Chicago, a myriad of banks ranging downward to those of smallest size offered ample alternative outlets for the public to enjoy. The fact that neither Harris Trust nor Chicago National was now lending up to its maximum limits he could not relate to the present situation, since this was a matter of discretion with the individual banks. He recollected that the larger Chicago banks had high loan-to-deposit ratios and suggested that this situation of itself would be a deterrent to legal limit loans by these banks.

Governor Mills suggested that because of the importance of this case and the differences in views apparent, this might be one that should be carried over until a larger number of members of the Board were present to consider it.

After further discussion, there was agreement with Governor Mills' suggestion for giving further consideration to this application when a larger number of members of the Board were present.

Mr. Hexter stated that the Board might wish to bear in mind that Harris Trust took the position that this merger was not subject to the merger law. Certain actions had been taken, meetings held, approval of the State supervisor obtained, and applications submitted to the Board of Governors prior to the enactment of the new law. Their position, supported by their counsel, was that that amounted to a merger even though the physical change was not to take place until October of this year. Mr. Hexter said that although he was of the opinion that the statute rested on the effective date of a merger, he thought it conceivable that, if the Board were to deny the application, there might be litigation of the question.

Proposed merger of Portland Trust and Valley National. A memorandum dated July 11, 1960, from the Division of Examinations had been circulated in connection with the application for the Board's approval of the proposed merger of The Valley National Bank of Milton, Milton-Freewater, Oregon, with and into Portland Trust Bank, under the charter of the latter and title of The Oregon Bank, and establishment of a branch at the present office of the national bank.

In reviewing the situation at Governor Balderston's request, Mr. Nelson observed that this was another application that had been filed just before the enactment of the merger law. The Valley National Bank had deposits of $2.7 million, and the Portland Trust Bank's deposits were $28.5 million. The Milton-Freewater bank, located about 250 miles east of Portland, was owned by three estates that held the majority of the stock. They wanted to dispose of the stock in order to liquidate the estates. President Adams of the Portland bank had purchased 558 of the 750 shares, or 74 per cent of the stock. Under the merger proposal Portland Trust Bank would give 17 of its shares for each share of Valley National. The transaction involved a substantial premium of about 8.7 per cent. The small bank in Milton-Freewater, a town of about 4,400, had fair management and was in satisfactory condition. As a branch of the Portland Trust Bank, it would compete with another small bank that served the town. It was felt in the Division of Examinations that the merger would probably enhance competition in that area in that it would provide an office of a bank with larger resources, and therefore approval was recommended.

Governor Balderston asked for more information about who would benefit from the premium Mr. Nelson had mentioned, to which the latter replied that this was an exchange of stock.

Mr. Hexter stated that presumably President Adams of Portland Trust Bank had bought the stock for a price just about equal to what he would get out of it.

Governor Mills stated that he was so well acquainted with the parties to the proposed transaction that he felt he must abstain from voting, whereupon Governor Robertson suggested that the matter be held over for further consideration when additional Board members would be present.

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:

	Item No.
Letter to the McDonald State Bank, North Platte, Nebraska, approving an extension of time to establish a branch four blocks south and one-half block east of its main office.	1
Letter to the Chicago City Bank and Trust Company, Chicago, Illinois, approving an extension of time to accomplish termination of its membership in the Federal Reserve System.	2

In connection with Item No. 1, Governor Robertson inquired if the Board was treating all of the facilities created in Nebraska as branches, to which Mr. Nelson responded in the affirmative.

Operation of real estate brokerage business by a State member bank (Item No. 3). A memorandum dated July 20, 1960, from the Division of Examinations had been distributed in connection with a problem that the Board also had discussed on July 21, 1960, with Mr. Myers, Secretary of Banking, Commonwealth of Pennsylvania. The memorandum stated that York Trust Company, York, Pennsylvania, a State member bank, planned to consolidate with The York National Bank and Trust Company. It was proposed to form a new State bank corporation that would absorb both banks, since neither wished to be regarded as merging into the other. The new State bank would have authority under its charter to engage in the real estate business. The York Trust Company had asked Vice President Campbell of the Federal Reserve Bank of Philadelphia if the new corporation applying for membership would be permitted to continue the real estate brokerage business that it had operated for many years. At the time the trust company came into membership in 1922 no conditions were prescribed with respect to the real estate business, and no objections to it had been indicated during examinations of the bank.

It was pointed out in the memorandum that it had been the Board's policy since 1953 to look with disfavor upon member banks engaging in nonbanking activities. In 1953 the Board had imposed upon the Union Bank and Trust Company, Salt Lake City, Utah, a condition of membership prohibiting it from engaging in the real estate business, and the bank had elected to forego System membership in order to continue that business. In 1956 the Board required Tracy Collins Trust Company, Salt Lake City, to discontinue its real estate business in connection with the establishment of a branch and the expansion of its functions to include commercial banking.

The Comptroller of the Currency had ruled that national banks without trust powers may not manage or sell real estate for others, but national banks with trust powers may engage in such activities as are within its general fiduciary powers.

At Governor Balderston's request, Mr. Solomon commented on the question that had been raised. He stated that it was the Board's policy--in fact it was required by law--that any bank already in the System that was exercising authority for activities such as a real estate business could continue to do so because the Board has no general regulatory power over State member banks. It can make conditions only at the time the bank joins the System, although the Board does prescribe a broad general condition of membership forbidding a State member bank to change the nature of its business without the Board's approval. It was under the latter condition that the Board required the Tracy Collins Trust

Company to give up its real estate business when it changed the nature of its business from savings and trust to commercial banking. The specific question confronting the Board, Mr. Solomon said, was whether the circumstances of the transaction proposed by the York banks were more analogous to a new bank coming into the System or to an existing member bank changing the nature of its business. There was no doubt that if the banks merged under the charter of the State bank they could continue the real estate business.

Mr. Hexter stated that there appeared to be both a legal and a policy question. He then referred to the provision of section 9(2) of the Federal Reserve Act that "Upon the merger or consolidation of a national bank with a State member bank under a State charter, the membership of the State bank in the Federal Reserve System shall continue." He also read the following passage from the statutes of Pennsylvania (Title 7, Section 819-1408):

> In the case of a merger, the surviving incorporated institution, and in the case of a consolidation, the new incorporated institution, shall be considered the same business and corporate entity as the several corporations parties to the plan of merger or consolidation, and the corporate existence of each of the several corporations, parties to the plan of merger or consolidation, shall be merged into and continued in the surviving incorporated institution in the case of a merger, and in the new incorporated institution in the case of a consolidation.

Mr. Hexter stated that under these statutes it was conceivable that it might be legally impossible for the Board to distinguish the new institution from the continuation of the State bank. It was also possible that even without regard to the legal question, on grounds of policy the Board might wish to say that the circumstances made the combination of the banks closer to a continuing institution than to a new institution.

Mr. Solomon was inclined to feel that on grounds of policy the decision to treat the resulting institution as a continuation would be a little easier to justify than a decision to treat it as a new institution. Since there was no new operation, it seemed to him that the Board could distinguish this situation from a new entry into the System.

Mr. Hexter remarked that under the Board's existing policies the question appeared to be whether the nature of a bank already in the System and operating a real estate business would be changed by a merger. In the case of a merger where there had not previously been a member bank conducting a real estate business, there could not be one thereafter. Accepting that as the rationale of the System, he concurred with Mr. Solomon that the Board could appropriately treat the new institution as a continuing one, especially since the language of the Pennsylvania statutes emphasized so strongly that the business and the entity of both corporations continued in a consolidated bank under the new charter. Although he did not understand why the distinction in terminology had been made, as far as continued corporate existence was concerned it was hard to see how the Pennsylvania legislature could have more effectively provided that the new institution, although it had a new corporate entity, also embodied the corporate entity of the predecessor institutions. On that approach, he thought the proposed York transaction fell closer to a merger.

Mr. Hooff pointed out that there was some uncertainty as to whether the York case was one in which the Board must approve the new institution's membership. In a similar case in Ohio it was determined that although a new charter was issued the bank continued its membership. The Ohio statute involved was similar to the one in Pennsylvania. There also had been other cases where it was not necessary to file a new application for membership. Mr. Hooff also observed that eventually the merger itself would require the Board's approval, and there was a question how the Board would view a merger like this in the light of the overall merger movement. The Board would have to decide whether the continuing institution's corporate powers were consistent with the merger act, and it was possible that the Board might turn down the merger on the ground that operating a real estate business was not consistent with that act.

Governor Mills stated that he did not believe the Board should object to the proposed new bank inheriting the right of its predecessor to engage in real estate activities.

Governor Robertson said that he did not think that this was a black and white case but a grey one, but he would be inclined to go along with the views that had been expressed by the Examinations and Legal Divisions. However, he would not bind himself to exclude consideration of the real estate function in passing upon the merger. Although the facts on the merger were not before the Board, he had a rough idea of the size of the institutions and was under the impression that the continuing bank would be one of the largest in that part of the country. As of now he would say that, in view of the State statutes, the facts were the same as though the banks were merging under the charter of the State bank, but he would not like to go any further than that.

Governor Shepardson said that he thought the new institution should be considered a continuing bank under the existing charter.

Governor Balderston suggested that a letter be sent to the two banks concerned stating the Board's decision, and that the letter include the point he had mentioned to State Secretary of Banking Myers on the telephone--that obviously a decision as to the right of the bank to continue its real estate business would not affect the Board's decision on a merger. It would be bad bank relations to let the banks think that the obstacle to continuance of the real estate business had been removed now and then find later that it was still a consideration.

After some further discussion, there was unanimous agreement that the staff prepare a letter to go to The York National Bank and Trust Company and to York Trust Company that would carry out the views expressed during the discussion, namely, that under the circumstances of the Pennsylvania statute, the Board would not impose a condition of membership upon the successor bank with respect to its real estate business and that this did not indicate what the Board's decision would be under the merger legislation. Pursuant to this action, a letter in the form of attached Item No. 3 was sent to the respective banks on July 27, 1960.

Mr. Hooff withdrew at this point and Mr. Chase, Assistant General Counsel, entered the meeting.

Interlocking directorates (Item No. 4). A memorandum dated July 11, 1960, from Mr. Chase had been circulated in connection with an inquiry from Curtis, Mallet-Prevost, Colt & Mosle, attorneys for American European Securities Company, as to whether the company should be regarded as "primarily engaged" in distributing and selling securities within the meaning of section 32 of the Banking Act of 1933. The memorandum stated that the company was a closed-end investment company, that its custodian was Morgan Guaranty Trust Company of New York, and that it had been the practice of the company for many years to have an officer of Morgan Guaranty as one of its directors. Since May 21, 1959, the company had been authorized to sell up to 50,000 shares of its stock, subject to the restriction that sales could not be made to any persons who were residents or citizens of the United States and that the company had the responsibility to insure that the entire process of distribution took place outside the United States.

The memorandum pointed out that the Board took the position in 1955 that section 32 was not applicable to an interlocking relationship between a member bank and a Canadian corporation that did not engage or participate in the underwriting, sale, or distribution of securities in the United States. Since it would appear that that precedent was applicable in the present case, a draft of letter was attached to the memorandum informing the firm of attorneys that in the circumstances the Board was of the opinion that section 32 would not be applicable to the interlocking relationships that had been described.

After a brief discussion, the letter was approved unanimously. A copy of the letter is attached as Item No. 4.

Mr. Chase then withdrew from the meeting.

Revisions in report of earnings and dividends (Item No. 5). A memorandum dated July 15, 1960, from Mr. Conkling had been circulated in connection with proposed revisions in the report of earnings and dividends and related instructions. The memorandum, a copy of which is attached as Item No. 5, described the nature of the revisions and opposition to them that was expected from bank analysts.

Mr. Farrell indicated that possible revisions in the report had been discussed for several years among the supervisory agencies and the Budget Bureau. There were disagreements among the agencies that it seemed would never be resolved, and the present proposal was advanced because the Bureau of the Budget had expressed a desire to have the matter cleaned up so far as was possible within the areas on which there was agreement. The proposed revisions were not a perfect job, he said, but they represented the best that could be done at the moment.

A discussion followed of the disagreements among the supervisory agencies as to what revisions would be appropriate and the protests that were expected from bank analysts. The latter had been pressing especially to have the income tax item in the reports split between that portion applicable to net current earnings and the portion applicable to nonoperating profits, losses, etc., on securities, loans, and other assets. The opinion was expressed that the Board probably would not have any over-riding interest in not adopting that revision, but the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency were opposed.

Governor Robertson said that he would vote for approval of the proposed changes but would do so reluctantly because he thought that the point that had not been covered was important; in his opinion the reports would be improved and made more informative if the additional data were required.

After further discussion the proposed revisions were approved unanimously.

During the foregoing discussion Messrs. Johnson, Director, Division of Personnel Administration, Smith, Assistant Director, Division of Examinations, and Sprecher, Assistant Director, Division of Personnel Administration, entered the meeting.

Storage of emergency supplies of Federal Reserve notes (Items 6, 7, and 8). A memorandum dated July 14 from the Division of Bank Operations had been circulated in connection with the plan for storing an emergency supply of Federal Reserve notes at the Salt Lake City Branch as part of the emergency planning program. It was proposed to ship 175,192,000 notes with a face value of $1,617,340,000. The program had been discussed informally with representatives of the Office of the Comptroller of the Currency and the Post Office Department, and it had been cleared with the Federal Reserve Bank of San Francisco. Attached to the memorandum were proposed letters to the Federal Reserve Agents and Reserve Bank Presidents outlining the program in detail, to the Chairman of the Conference of Presidents requesting that steps be taken to amend the Loss Sharing Agreement of the Federal Reserve Banks so as to permit making the shipments under it, and to the Post Office Department asking for quotations on handling the shipments.

Mr. Farrell stated that an additional vault level had been constructed in the new Salt Lake City Branch building in order to provide storage space for emergency supplies of currency. When equipping of the vault was finished early in the spring of 1960, the Board had written to the Federal Reserve Bank Presidents to ask if they wished to store some of their currency at the Salt Lake City Branch. Total reserves of Federal Reserve notes were kept at approximately a two-year supply, based on the usage rate of 1951, which was somewhat higher than the usage rate in the last two years. The emergency planning program called for decentralizing some of that supply, and the step now proposed would place about a four-months' supply of currency at the Salt Lake City Branch. Almost exactly half of the amount and somewhat over half of the quantity to be shipped was in notes of the New York Reserve Bank.

Large bulk shipments were contemplated, Mr. Farrell continued, in an effort to transport the currency as economically as possible. Also, bulk shipments would take less time. If the currency were shipped in the usual way, in maximum lots of $15 million, there would be only two days a week when shipments could be made so that they would not arrive at Salt Lake City on a weekend or a holiday, and 10 months would be required to complete the project. The bulk shipments, however, would take from five to seven months. They would be made in several carload lots and the Salt Lake City Branch was prepared to accept only one shipment every two or three weeks.

There had been one experience with this kind of shipment, Mr. Farrell stated, when $300 million was sent recently from Fort Knox to Chicago, where it was broken down and shipped to the various Banks whose notes were involved. The Post Office Department had quoted rates for that shipment that were more favorable than were rates for the $15 million maximum lots, and it was hoped that similarly favorable rates could be obtained for the shipments now proposed.

Mr. Hexter observed that under the Federal Reserve Act the notes of a particular Federal Reserve Bank are supposed to go into the custody of the Federal Reserve Agent at that Bank. In this case, however, the notes would be sent to a different Bank. Therefore, powers of attorney had been drafted appointing the Federal Reserve Agent at the San Francisco Bank to hold custody on behalf of the other Federal Reserve Banks and Agents concerned.

The shipment of the currency and the sending of the three letters attached to the memorandum were then approved unanimously. Copies of the letters are attached as Items 6, 7, and 8.

All members of the staff with the exception of Messrs. Sherman, Johnson, and Sprecher then withdrew and Mr. Chase returned to the meeting.

Retirement allowance contract between New York Reserve Bank and Mr. Hayes (Item No. 9). Before this meeting there had been circulated a draft of letter to Mr. Reed, Chairman and Federal Reserve Agent at the

Federal Reserve Bank of New York, that would transmit an executed copy of a contract entered into between the New York Bank and Mr. Hayes pursuant to the plan approved by the Board on November 18, 1959, under which short-term Presidents of the Federal Reserve Banks could be granted a minimum retirement allowance of 40 per cent of their final salary if they retired after completing 10 years' service, the difference between the amount payable under the Retirement System of the Federal Reserve Banks and the 40 per cent of final salary to be paid directly by the Federal Reserve Bank concerned to the individual.

Mr. Sprecher stated that this was the fourth contract of this type to be submitted to the Board for its approval since the action taken on November 18, 1959. The provisions were the same as in previously executed contracts, but two minor changes in wording had been introduced by the New York Bank on the grounds of clarification. One of these would provide within the contract itself that it was subject to approval of the Board of Governors, and the other was designed to make clear that in the event Mr. Hayes retired before attaining age 65 and took a deferred allowance from the Retirement System, the payments under this contract (to be made entirely outside the Retirement System) would nevertheless start immediately upon retirement.

Mr. Chase stated that the contract had been reviewed by the Legal Division and that he was of the opinion that no substantive change from the three earlier contracts was brought about by the adjustments in wording made by the Federal Reserve Bank of New York.

After some discussion of the amounts that would be payable under the contract by the Federal Reserve Bank of New York if Mr. Hayes retired at any of several different times, Governor Balderston stated that the purpose of the contract was to bring up the total retirement income of the President of the Reserve Bank to an agreed upon minimum amount. He then called for comments from the other Board members.

Governor Mills said that he had never been very enthusiastic about these transactions but that the contract between the New York Bank and Mr. Hayes appeared to be consistent in a general way with those approved earlier by the Board under the plan agreed upon at the meeting on November 18, 1959. For this reason, he would concur in a recommendation for approval of the contract by the Board.

Governor Robertson said that the plan agreed upon by the Board on November 18, 1959, was originally designed to enable the Federal Reserve System to attract persons of experience to serve as Presidents of the Federal Reserve Banks when that was necessary. This assumed that a man who came into the System on this basis relatively late in life would remain in active service until the normal retirement age of 65. In his opinion, there should be no incentive for persons brought in under these circumstances to retire early, but as he studied the terms of this particular contract it appeared to him that there was an undesirable incentive for a man to take advantage of the option to retire before attaining age 65. Since this had been in the other contracts, however, he would not disapprove the present contract for that reason.

With respect to the changes that had been proposed by the New York Bank, it was Governor Robertson's view that contracts under the plan that had been approved by the Board should be in standard form. If the changes proposed by the New York Bank were sufficiently important to warrant making them, then they should be applied to each of the existing contracts. If the changes were merely clarifying, he could see no reason for deviating from the form of contract that had been executed in other cases. For this reason he would approve a contract in the same form that had been approved for certain other Reserve Banks under this plan, or he would approve a reworded form of contract if it was an improvement over the other form, provided the outstanding contracts were rewritten accordingly.

There followed a discussion of the points raised by Governor Robertson, during which Governor Mills stated that an argument could be made that it was preferable not to have complete uniformity in the language of the different contracts so long as the terms did not depart from those approved earlier by the Board. He did not think identical wording of the different contracts was of material importance so long as the basic terms were observed and it was clear that the transactions were handled entirely outside the Retirement System of the Federal Reserve Banks and represented obligations of the respective Federal Reserve Banks.

Governor Robertson indicated that, as in the case of contracts submitted for Board approval by the Boston and Chicago Reserve Banks, he would not vote against accepting a contract between the New York Reserve Bank and Mr. Hayes if it was in the form of the earlier contracts, even though he had voted against the plan adopted by the Board at its meeting on November 18, 1959. His reasoning was that the Board had adopted the program for other short-service Presidents in the Federal Reserve Banks, and, under the circumstances, there would be no purpose in his continuing to vote against the implementation of the plan provided the individual contracts were in satisfactory form. However, he disapproved a departure in the form of the contract by one Reserve Bank because of a preference for different language, and he would vote against approval of a contract between the New York Bank and Mr. Hayes in the form that had been submitted by the New York Bank with its letter of June 21, 1960, unless the Board believed that a change was necessary to make the contract clear and understandable and caused it to be applied to outstanding contracts as well as this one.

Governor Balderston expressed preference for alternative wording proposed by the Board's Legal Division which would also differ from that submitted by the Federal Reserve Bank of New York, adding that he had a good deal of sympathy with the point of view expressed by Governor Robertson. However, he felt that it would not be desirable to tinker with the language of the different contracts as submitted, and in view of the fact that the contract submitted by the New York Bank had been approved by the directors of that Bank and carried out the substantive provisions of the Board's action of November 18, 1959, he would be willing to accept it.

Thereupon, the contract between the New York Bank and Mr. Hayes was approved in the form attached to these minutes as Item No. 9, with the understanding that it would be executed by the Secretary on behalf of the Board and copies returned to the Reserve Bank. On this action Governor Robertson voted "no."

The meeting then adjourned.

Secretary's Notes: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the following items affecting the Board's staff:

Salary increase

Rose C. Cassedy, Research Assistant, Division of Research and Statistics, from $6,015 to $6,435 per annum, effective July 24, 1960.

Transfer

Marjorie J. Hollingshead, Clerk-Stenographer, Division of Personnel Administration, to the position of Clerk-Stenographer, Division of Research and Statistics, with no change in her basic annual salary of $4,040, effective July 24, 1960.

Acceptance of resignation

Dorothy J. Buschman, Draftsman, Division of Research and Statistics, effective August 5, 1960.

Governor Shepardson also approved today on behalf of the Board the following items:

Letter to the Federal Reserve Bank of New York (attached Item No. 10) approving the appointment of Joseph F. Realini and Leon R. Holmes as assistant examiners.

Memorandum from the Division of Examinations dated July 19, 1960, (attached Item No. 11) relating to the cost of examination of the Virgin Islands branches of The Chase Manhattan Bank and of the Guatemalan branch and agency of Bank of America.

Secretary

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

Item No. 1
7/22/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 22, 1960

Board of Directors,
McDonald State Bank,
North Platte, Nebraska.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Kansas City, the Board of Governors extends to September 1, 1960, the time within which McDonald State Bank may establish a branch located four blocks south and one-half block east of its main office under the authorization contained in the Board's letter of January 25, 1960.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 2
7/22/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 22, 1960

Board of Directors,
Chicago City Bank and Trust Company,
Chicago, Illinois.

Gentlemen:

Pursuant to the request contained in President Engles' letter of July 15, 1960, the Board of Governors of the Federal Reserve System extends until November 19, 1960, the time within which Chicago City Bank and Trust Company may accomplish termination of its membership in the Federal Reserve System under the resolution adopted by the board of directors on November 17, 1959.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 3
7/22/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 27, 1960

Mr. William C. Wagner, President,
The York National Bank and Trust Company,
York, Pennsylvania.

Dear Mr. Wagner:

Reference is made to your letter of July 14, 1960, signed also by Mr. William Himes, President of York Trust Company, regarding the proposed consolidation of York Trust Company and The York National Bank and Trust Company. You inquire whether the resulting corporation, as a member of the Federal Reserve System, would be permitted to continue the real estate activities presently conducted by York Trust Company.

The Board of Governors heretofore has required nonmember banks applying for membership in the Federal Reserve System to cease operating real estate departments. On the other hand, member State banks have not been required to discontinue the operation of such departments when they participate in an ordinary merger.

A question arose in this case because the proposed York Bank and Trust Company is to be formed through a "consolidation" under sections 819-1401 et seq. of Title 7 of Purdon's Pennsylvania Statutes Annotated, which involves the creation of a "new incorporated institution" rather than a "surviving incorporated institution", as in the case of a "merger". However, it is noted that, under section 819-1408, the "new incorporated institution shall be considered the same business and corporate entity as the several corporations parties to the plan of . . . consolidation, and the corporate existence of each of the several corporations . . . shall be merged into and continued . . . in the new incorporated institution".

The Board of Governors has concluded, in view of these provisions of the Pennsylvania consolidation statute, that the situation falls within the principle governing continuing powers of member banks participating in an ordinary merger. Accordingly, in the event the proposed transaction is consummated and the "new incorporated institution" applies for membership in the Federal Reserve System, the Board does not intend to impose a condition of membership requiring termination of the real estate activities presently conducted by York Trust Company.

As you are aware, under the recent amendment of section 18(c) of the Federal Deposit Insurance Act (12 U.S.C. 1828) the proposed consolidation must have the prior written consent of the Board of Governors if the resulting bank is to be a State member bank. In granting or withholding consent under section 18(c), the Board is required to consider certain prescribed factors, including the effect of the transaction on competition, and the Board "shall not approve the transaction unless, after considering all of such factors, it finds the transaction to be in the public interest". Needless to say, the Board's decision not to impose a condition of membership requiring termination of real estate activities is not in any sense a determination under section 18(c).

Mr. Himes, President of the York Trust Company is being furnished a similar letter and a copy has been sent to Mr. Myers, Secretary of Banking.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 4
7/22/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 22, 1960

John P. Campbell, Esquire,
Curtis, Mallet-Prevost, Colt and Mosle,
Attorneys and Counsellors at Law,
63 Wall Street,
New York 5, New York.

Dear Mr. Campbell:

Reference is made to your letter of June 29, 1960, inquiring as to the applicability of section 32 of the Banking Act of 1933 to the service of an officer of Morgan Guaranty Trust Company of New York as a member of the board of directors of American European Securities Company. This is a closed-end investment company having 603,281 outstanding shares out of an authorized capital of 1,000,000 shares, and it has now been authorized to sell up to 50,000 shares of its stock on the condition that the sales cannot be made to any persons who are residents or citizens of the United States. The Company has the responsibility to insure that the entire process of distribution takes place outside the United States.

In these circumstances, the Board of Governors is of the opinion that section 32 would not be applicable to the above interlocking relationship.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

2776

Item No. 5
7/22/60

Office Correspondence

Date July 15, 1960

To Board of Governors

From Gerald M. Conkling

Subject: Proposed revisions in the report of earnings and dividends and related instructions (Forms F.R. 107 and 107a).

Recommendation

It is recommended that the Board tentatively approve a revision in the report of earnings and dividends in substantially the attached form for use in 1961. It is also recommended that the Board authorize the Division of Bank Operations to make such minor changes in phraseology and format as may be necessary as a result of further and more detailed negotiations with the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Bureau of the Budget, and to revise the related instructions pamphlet to be consistent therewith.

Purpose of memorandum

Ordinarily when relatively minor and technical changes are being made in a form, the matter is not presented to the Board until both the report form and related instructions are in almost final form.

However, in this instance it is expected that the attached form will meet substantial opposition from bank analysts, NABAC, and the Budget Bureau's Banking Committee of the Advisory Council on Federal Reports because it does not include one change for which numerous pressures have been exerted--namely, a split of the income tax item (present item 7) between that portion applicable to net current earnings and the portion applicable to nonoperating profits, losses, etc., on securities, loans, and other assets.

Nature of revisions

These consist mainly of a new item 2(c) under expenses, for reporting supplementary and fringe benefits; a new item of net occupancy expense (item 2(g) and Section E); uniformity in Schedule B on the back of the form for the reconciliation of changes in capital accounts; and some improvement in accounting terminology. Both the rejected and accepted revisions are discussed below.

Split of tax item. The pressures for this suggested revision have been mainly from bank analysts such as Morris A. Schapiro, who is a dealer in bank stocks and a prolific writer and speaker; Robert S. Burns, an investment analyst and security dealer specializing in bank stocks, who used to write (and still may, although recent ones are unsigned)a column on bank stocks for the American Banker; and from NABAC and its members, who comprise a majority of the Budget Bureau's advisory committee of which Charles A. Agemian is Chairman.

The large banks whose per-share earnings are published regularly in the financial pages state their earnings in this fashion: "Net operating earnings after taxes." This ordinarily, but not always, is the net current operating earnings figure set forth in item 3 of the required earnings report, reduced by that portion of item 7, Taxes on net income, which is applicable to net current operating earnings.

Neither in the newspaper accounts nor in the reports to shareholders is it easy to arrive at the total taxes on net income because the banks in such publications generally deduct the additional taxes on security profits in profit-years from such profits, or they deduct the tax savings from losses in loss-years in setting forth their net of nonrecurring profits or losses.

The claim of the analysts is that this is the appropriate way to disclose bank earnings. Messrs. Schapiro and Burns have both told us in conversations that only the net of the "upper basket," i.e., net current operating earnings after applicable taxes, is of any value in comparing the long-term trend of earnings of the same bank or of various banks; and that the net of the "lower basket," so-called non-operating net of profits, losses, charge-offs, etc., plus or minus additional taxes or tax savings on such items, is of lesser importance. Mr. Agemian and the NABAC group seem to feel that the smaller banks that do not make this distinction should do so for their own good.

The objections to this split have been set forth rather strongly by the Office of the Comptroller of the Currency and the FDIC as follows:

(1) The split is not necessary for supervisory purposes.

(2) Although the split is readily available at the large banks, its computation would be unduly burdensome to the large number of small banks.

(3) Supervisory agencies do not now have the power to require publication of bank earnings according to any set form, and the split on an official statistical form might indicate supervisory agency blessing of existing practices of publishing earnings.

(4) Other industry income statements do not split income tax according to the various factors.

Supplementary and fringe benefits. There is general staff agreement that the instructions regarding what should be reported against the new fringe benefits item should be strictly on a W-2 basis. If the bonus, profit-sharing arrangement, retirement payments, etc., are taxable to the recipient, they belong in salaries; if not they belong in the new fringe benefits item. Other fringe benefits items such as the subsidy of a bank cafeteria or recreational facilities would also be included in the new item.

Net occupancy expense. The purpose of this new item and the supporting Section E is to group all landlord items together so that such expense is comparable at various banks, whether the bank happens to own its one-purpose building, to own a large office building much of which is rented to others, or to rent its quarters under any arrangement for paying taxes, maintenance, etc.

Uniformity in Section B showing changes in capital accounts. Present FDIC and Federal Reserve forms are identical in this respect but not completely satisfactory, and the Comptroller has an entirely different form. Under present conditions, it is practically impossible to tabulate for all banks their capital accounts at the beginning of the year plus and minus the known factors of earnings, dividends, sales of stock, etc., and capital accounts at the end of the year without a statistical discrepancy in the reconciliation. Although the discrepancy is relatively small in most years, it is never known whether it may be hiding substantial pluses and minuses. The proposed form is expected to cure this.

Accounting terminology. I had an exchange of correspondence with Mr. Carman Blough, Director of Research of the American Institute of Certified Public Accountants, several years ago, and Mr. Edison H. Cramer of the FDIC recently called on Mr. Blough in New York City on the subject of appropriate terminology on earnings, profits, income, etc. The attached form contains some improvement in phraseology, and it is hoped that the final product will receive additional attention from the American Institute.

History of the proposed revisions

1957. Considerable early progress was made on these revisions in the three agencies, when the Comptroller's representative made a rather drastic suggestion that the face of the form should show only "actual" profits, losses, recoveries, and charge-offs, and should not disclose transfers to or from valuation reserves. In other words, such valuation reserves would be treated merely as earmarked portions of capital accounts.

Both FDIC and Federal Reserve representatives objected to this treatment and the Comptroller's staff relented to the point that the net increase or decrease in valuation reserves would be shown as one item just above net income before income taxes. This satisfied Federal Reserve but not FDIC representatives and would be consistent with the way the Federal Reserve publishes the Bulletin text table (page 475 of the May 1960 Bulletin). Both the so-called C of C version and the so-called FDIC version, satisfactory to the Board representatives, were presented by the Comptroller's staff to Mr. Gidney early in 1958, and since that time there has been a stalemate.

Recently the matter was revived by a letter to Mr. Gidney from Mr. R. T. Bowman, Assistant Director for Statistical Standards, Bureau of the Budget, copies of which were sent to the FDIC and the Board (attached, together with reply). A staff meeting was arranged and agreement was reached on all points--on most of them unanimously.

The attached form, with minor revisions, is the so-called FDIC version as prepared early in 1958. On the major point that had stalled its progress--treatment of losses and recoveries--there is no major change from the existing form; Section F on the attached form would be used only by the Comptroller of the Currency.

At this recent meeting, the split of the income tax item, which incidentally was not in either of the previously prepared versions, was again discussed and the Federal Reserve representative was again in the minority.

Attachments.

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

Item No. 6
7/22/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 22, 1960.

CONFIDENTIAL (FR)

Dear Sir:

The Board's letter of March 8, 1960, requested comments on the proposal to place an emergency supply of Federal Reserve notes in the vault of the Salt Lake City Branch.

This letter is being sent to each President and each Federal Reserve Agent in lieu of making individual acknowledgments of the replies to the March 8, 1960, letter. It endeavors to answer all questions raised in the replies and also to supply further information about the plan.

Giving due consideration to replies from the Agents and the Reserve Banks, the amounts of unissued notes on hand in Washington, the capacity of the various partitioned areas in the vault, and the desirability of having each area contain only one Bank's notes, it is planned to arrange for shipment of notes in approximately the amounts shown in the attached table. Although six Banks and Agents indicated an interest in participating, notes of only five Banks are involved because vault areas will be assigned so as to utilize available space to the best advantage.

It is contemplated that all the notes will be shipped from Washington. Two of the Banks involved do not have a sufficient quantity of notes in the hands of the Comptroller of the Currency, but the deficiencies will be made up through early printings of notes of these Banks by the Bureau of Engraving and Printing.

Two Banks and Agents suggested inclusion of notes in the $50 and $100 denominations, but for convenience and uniformity it seemed desirable to limit the denominations to Fives, Tens, and Twenties.

The notes will be counted as part of the two-years' reserve supply (based on 1951 use) which it is endeavored to maintain in the $5-$100 denominations.

The Division of Examinations expects to place the notes under seal as soon as it has the opportunity to make its verification.

While the notes will be held in dead storage, it will probably be desirable to turn them over in five to ten years.

In the interest of economy, it is planned to make several carload shipments of the notes, provided favorable rates are quoted by the Post Office Department.

It will also be desirable to amend the Loss Sharing Agreement to permit the notes to be shipped under the Agreement. The Chairman of the Conference of Presidents is being requested to take appropriate steps to accomplish this.

The Board of Governors authorizes the Federal Reserve Banks of New York, Cleveland, Atlanta, and Chicago, and the Federal Reserve Agent at each of these banks, to appoint, respectively, the San Francisco Reserve Bank and the Federal Reserve Agent at that Bank to hold notes of the four Banks in joint custody. In order to facilitate establishment of such agency relationships, there are attached suggested forms of powers of attorney by means of which (1) each of the four Agents will appoint the Agent at the San Francisco Reserve Bank to hold such emergency supplies of currency in safekeeping in the vaults of the Salt Lake City Branch, and (2) each of the four Reserve Banks will appoint the San Francisco Reserve Bank to act as joint custodian of such currency.

Unless there is some objection to going ahead with the program as outlined above and in the absence of further communication from you or your Bank, preliminary arrangements will begin as soon as quotations are received from the Post Office Department, so that the shipments can commence promptly after the effective date of the amended Loss Sharing Agreement.

It is requested that a copy of each power of attorney executed under this program be forwarded to the Board. Each Federal Reserve Agent is also requested to make arrangements to assure that his successor as Agent will execute and deliver a similar power or attorney upon assuming the office.

The Board's Division of Bank Operations will communicate with the Assistant Federal Reserve Agents about submitting requisitions for shipment of the notes.

Very truly yours,

Merritt Sherman,
Secretary.

Enclosures

TO EACH FEDERAL RESERVE AGENT AND TO
THE PRESIDENT OF EACH FEDERAL RESERVE BANK

POWER OF ATTORNEY

I, the undersigned, as Federal Reserve Agent accredited to the Federal Reserve Bank of _____ ("_____ Agent"), hereby appoint and constitute the person serving from time to time as Federal Reserve Agent accredited to the Federal Reserve Bank of San Francisco ("San Francisco Agent") my agent and attorney, to receive and to hold in his custody, for me and on my behalf, Federal Reserve notes of the Federal Reserve Bank of _____ in such numbers, denominations, and aggregate amounts as I may from time to time direct. In accordance with section 16 of the Federal Reserve Act (12 U.S.C. 417), such notes shall be held for me, under rules and regulations prescribed by the Board of Governors of the Federal Reserve System, in the joint custody of the San Francisco Agent and the Federal Reserve Bank of San Francisco, acting as agent for the Federal Reserve Bank of _____ under power of attorney issued to it by the Federal Reserve Bank of _____. The San Francisco Agent is authorized and directed to deposit and hold custody of such notes in the vaults of the Salt Lake City Branch of the Federal Reserve Bank of San Francisco. The San Francisco Agent shall surrender, deliver or take other action with respect to, such notes, as I may from time to time direct.

This power of attorney is subject to revocation in writing at any time, without prior notice.

IN WITNESS WHEREOF, I hereby set my hand to this instrument, this ____ day of __________, 1960.

____
Federal Reserve Agent at ________

POWER OF ATTORNEY

The Federal Reserve Bank of _____ ("_____ Bank") hereby appoints and constitutes the Federal Reserve Bank of San Francisco ("San Francisco Bank") the agent and attorney for the _____ Bank, to hold Federal Reserve notes of the _____ Bank in joint custody with the Federal Reserve Agent accredited to the Federal Reserve Bank of San Francisco ("San Francisco Agent") acting under power of attorney issued to him by the Federal Reserve Agent accredited to the Federal Reserve Bank of _____ ("_____ Agent"). Said joint custody shall be in accordance with section 16 of the Federal Reserve Act (12 U.S.C. 417) and rules and regulations prescribed by the Board of Governors of the Federal Reserve System and shall apply to all Federal Reserve notes in the custody of the San Francisco Agent as agent for the _____ Agent. The San Francisco Bank shall surrender, deliver, or take other action with respect to, its joint custody of such notes as the _____ Bank from time to time shall direct.

This power of attorney is subject to revocation in writing at any time, without prior notice.

FEDERAL RESERVE BANK OF _____

by ______________________________

______________________ (Date)

______________________________ (Title)

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

Item No. 7
7/22/60

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

July 22, 1960

CONFIDENTIAL (FR)

Mr. Delos C. Johns, Chairman,
Conference of Presidents of the
Federal Reserve Banks,
Federal Reserve Bank of St. Louis,
P. O. Box 442,
St. Louis 66, Missouri.

Dear Mr. Johns:

Under the System's defense planning program for decentralization of currency, it is proposed to store an emergency supply of unissued Federal Reserve notes in the vault of the Salt Lake City Branch building. Approximately 175 million notes are involved, with a face value of approximately $1,617 million.

It appears desirable to ship the notes by registered mail in five to seven carload lots, partly in order to take advantage of substantial reductions in postage and fees which it is expected can be obtained under this procedure and partly because it would take about ten months to complete the program if each shipment were limited to $15 million in the usual manner.

So that the shipments may be made under the Loss Sharing Agreement, thereby saving the cost of purchasing insurance, it is proposed that the Agreement be amended. The following amendments are suggested:

1. Amend the last paragraph of section 7 of the Loss Sharing Agreement of the Federal Reserve Banks to read as follows:

"The limitations prescribed in subparagraphs (A), (B), (C), and (D) of this section shall not apply (1) in the event of a national emergency, or (2) to any shipment of Federal Reserve notes that are to be stored in the joint custody of a Federal Reserve Agent and a Federal Reserve Bank for use in a national emergency rather than for current use, or (3) to any shipment of Federal Reserve notes out of storage of the nature described in (2)."

2. Amend subparagraph (A) of section 7 of the Loss Sharing Agreement of the Federal Reserve Banks to read as follows:

> "$15 million on all shipments of new currency by registered mail by the United States Treasury Department to the same office on the same day, except that the limitation prescribed in this subparagraph shall not be applicable to any shipment by registered mail from the United States Bullion Depository, Fort Knox, Kentucky, to one or more Federal Reserve Bank offices."

The language of the suggested amendments is intended to be broad enough to cover not only this particular storage in the vault at Salt Lake City but other shipments into and out of storage for emergency use.

It will be appreciated if you will take the necessary steps to have such amendments proposed for consideration by the Federal Reserve Banks.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 8
7/22/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 22, 1960

CONFIDENTIAL (FR)

Mr. Edwin A. Riley,
Director, Postal Services Division,
Bureau of Operations,
Post Office Department,
Washington 25, D. C.

Dear Mr. Riley:

One of the features of the defense planning program of the Federal Reserve Banks and the Board of Governors of the Federal Reserve System is decentralization of reserve supplies of currency. In this connection, it is planned to have shipped from Washington, D. C., to the Salt Lake City Branch of the Federal Reserve Bank of San Francisco $1,617,340,000 in Federal Reserve notes. Enclosed is a schedule showing the number of notes and the dollar amounts and denominations.

Preliminary discussions with Mr. Wirth of your staff, the Office of the Comptroller of the Currency, and the Federal Reserve Bank of San Francisco point to the desirability of having the notes shipped in several carload lots.

On previous occasions, most recently when $300,000,000 of Federal Reserve notes were shipped from the United States Bullion Depository at Fort Knox, Kentucky, to various Federal Reserve offices, the Post Office Department has quoted special rates, representing substantial reductions from the usual shipping fees.

It will be appreciated if you will, at your early convenience, quote rates for moving the notes from the freight loading dock at the Bureau of Engraving and Printing Annex building in Washington, D. C., to the Salt Lake City Branch of the Federal Reserve Bank of San Francisco.

In view of the unusual quantity of pouches in each shipment, it will be appreciated if you will also explore the possibility of having the Post Office Department deliver the shipments direct from the train to the Federal Reserve Branch building. It would appear to us there might be mutual advantages in avoiding a duplicate loading operation and in simplification of security measures. If such arrangements can be worked out, we understand there might be a charge for the cost of the additional service.

If necessary arrangements covering all phases of the program can be completed in time, we should like to begin shipping the notes in September or early in October, at approximate two-week intervals.

It is contemplated that national security measures will require other large shipments of currency for emergency storage in the future.

We shall be glad to furnish any additional information you may desire.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure

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

2788

Item No. 9
7/22/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 22, 1960.

CONFIDENTIAL (FR)

Mr. Philip D. Reed,
Chairman,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Reed:

This refers to your letter of June 21, 1960, enclosing three copies of an Agreement dated June 21, 1960, entered into between the Federal Reserve Bank of New York and President Hayes providing for a minimum retirement allowance for President Hayes after his retirement under certain conditions.

The Board of Governors approves the Agreement as entered into between the Bank and Mr. Hayes on June 21, 1960, and the Secretary of the Board of Governors has affixed his signature in the place indicated in the Agreement.

One executed copy of the agreement has been retained for the Board's files, and the original and one other copy are returned herewith.

Very truly yours,

(signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure

For and in consideration of the mutual promises of each, this Agreement is entered into between ALFRED HAYES and the FEDERAL RESERVE BANK OF NEW YORK, New York, New York.

Subject to all of the applicable provisions of law, ALFRED HAYES agrees to serve as an officer of the said FEDERAL RESERVE BANK as long as such service shall be mutually agreeable to the parties hereto.

For and on account of such service, said FEDERAL RESERVE BANK shall pay said ALFRED HAYES as follows:

(1) Said FEDERAL RESERVE BANK shall pay to said ALFRED HAYES a salary at the rate of $60,000 per annum during the period ending December 31, 1960, and thereafter during his service as an officer of said FEDERAL RESERVE BANK and prior to his retirement his salary shall be as determined from time to time in accordance with applicable provisions of law;

(2) If, having attained the age of 65, said ALFRED HAYES shall retire with not less than 10 years of service creditable under the Retirement System of the Federal Reserve Banks, and if he is president of said FEDERAL RESERVE BANK at the time of his retirement, said FEDERAL RESERVE BANK shall pay to said ALFRED HAYES after such retirement and during the remainder of his lifetime an amount per annum which, together with his regular retirement allowance under the Retirement System of the Federal Reserve Banks (without regard to optional benefits or conversion, or additional voluntary contributions), will aggregate a sum equal to 40 per cent of the annual salary being paid to him at the time of his retirement; and

(3) If, without having attained the age of 65, said ALFRED HAYES shall retire with not less than 10 years of service creditable under the Retirement System of the Federal Reserve Banks, and if he is president of said FEDERAL RESERVE BANK at the time of his retirement, the aggregate sum equal to 40 per cent of salary referred to in the preceding paragraph (2) shall be reduced by the application of the then current table of pension reduction factors of the Bank Plan of the Retirement System of the Federal Reserve Banks, and the portion of the aggregate that is payable by said FEDERAL RESERVE BANK shall be the difference between the dollar amount represented by such lesser percentage of salary and the regular retirement allowance payable at the attained age by said Retirement System. If said ALFRED HAYES shall request that such retirement allowance be deferred, payments to him by said FEDERAL RESERVE BANK under this Agreement shall begin upon his retirement, and shall be calculated as if he had requested an immediate retirement allowance.

The provisions of this Agreement shall be subject to the approval of the Board of Governors of the Federal Reserve System. This Agreement does not obligate the said ALFRED HAYES to remain as an officer of the said FEDERAL RESERVE BANK, nor does this Agreement, or any approval thereof by the Board of Governors of the Federal Reserve System, constitute an agreement by the said FEDERAL RESERVE BANK or by the Board of Governors of the Federal Reserve System that he will continue in such capacity, or obligate the said FEDERAL RESERVE BANK to appoint, reappoint or continue him as an officer, or obligate the Board of Governors of the Federal Reserve System to approve his appointment or reappointment or his compensation.

Witness our hands and seals this 21 day of June, 1960.

Alfred Hayes L.S.
ALFRED HAYES

FEDERAL RESERVE BANK OF NEW YORK

By Philip D. Reed
Chairman of Board of Directors

Attest:

William H. Braun Jr.
Secretary

The above Agreement has been approved by the Board of Governors of the Federal Reserve System and in witness thereof, the seal of the said Board is attached and its Secretary has affixed his signature.

(Signed) Merritt Sherman
Secretary

July 22, 1960
(Date)

(SEAL)

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

Item No. 10
7/22/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 22, 1960

CONFIDENTIAL (FR)

Mr. Howard D. Crosse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Crosse:

In accordance with the request contained in your letter of July 14, 1960, the Board approves the appointment of Joseph F. Realini and Leon R. Holmes as assistant examiners for the Federal Reserve Bank of New York. Please advise as to the effective dates of the appointments.

It is noted that Mr. Holmes is indebted to Holyoke National Bank, Holyoke, Massachusetts, Federal Reserve District No. 1, in the amount of $1,657.03. Accordingly, approval is given with the understanding that he will not participate in any examinations of that bank.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 11
7/22/60

Office Correspondence

Date July 19, 1960.

To Board of Governors

From Division of Examinations

Subject: Cost of examinations of Virgin Islands Branches of The Chase Manhattan Bank and of the Guatemalan Branch and Agency of Bank of America.

Attached is a letter dated July 1, 1960, from Deputy Comptroller of the Currency Haggard enclosing statements of the proportionate transportation costs, subsistence expenses, and salaries of National Bank Examiner George S. Sloan and Assistant National Bank Examiners Francis R. Schilling and Donald Milne, in connection with the examination of the Virgin Islands branches of The Chase Manhattan Bank, a State member bank, New York ($5,028.55), and the Guatemalan branch and agency of Bank of America, a corporation organized under the provisions of Section 25(a) of the Federal Reserve Act, New York ($2,877.05), total $7,905.60.

It is recommended that the Board authorize the payment of the attached bills in the aggregate amount of $7,905.60, in accordance with the Board's letter of December 7, 1959, to Comptroller of the Currency Gidney.

It is further recommended

(1) That the Office of the Controller of the Board of Governors bill Bank of America for that portion of the expenses represented by transportation costs and subsistence, $1,005.05; and

(2) That the Board absorb the salary expenses in connection with the examination of the Guatemalan branch and agency of Bank of America and all of the expenses involved in the examination of the Virgin Islands branches of The Chase Manhattan Bank;

in accordance with the existing policy with regard to fixing the cost of examinations of overseas branches of member banks and foreign banking corporations, as approved by the Board on April 27, 1951.

Respectfully submitted,

(Signed) Glenn M. Goodman

Glenn M. Goodman,
Assistant Director.