

Minutes for August 4, 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	<u>MM</u>
Gov. Szymczak	<u>[Signature]</u>
Gov. Mills	<u>[Signature]</u>
Gov. Robertson	<u>R</u>
Gov. Balderston	<u>C.C.B.</u>
Gov. Shepardson	<u>[Signature]</u>
Gov. King	<u>[Signature]</u>

Minutes of the Board of Governors of the Federal Reserve System
on Thursday, August 4, 1960. The Board met in the Board Room at 10:00 a.m.

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

Mr. Kenyon, Assistant Secretary
Miss Carmichael, Assistant Secretary
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel
Administration
Mr. Hexter, Assistant General Counsel
Mr. Sammons, Associate Adviser, Division of
International Finance
Mr. Conkling, Assistant Director, Division of
Bank Operations
Mr. Nelson, Assistant Director, Division of
Examinations
Mr. Hooff, Assistant Counsel

Discount rates. The establishment without change by the Federal Reserve Bank of Minneapolis on August 3, 1960, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

Report on competitive factors (Hillsboro, New Hampshire). A proposed report to the Comptroller of the Currency on the competitive factors involved in the proposed purchase of assets and assumption of liabilities of The Hillsboro Guaranty Savings Bank, Hillsboro, New Hampshire, by The First National Bank of Hillsborough, Hillsboro, New Hampshire, had been distributed under date of July 25, 1960. The report concluded as follows:

1/ Withdrew from meeting at point indicated in minutes.

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Because of the distances between Hillsboro and other banking towns, as well as the common ownership and types of business of the two banks, the proposed transaction would appear to have little effect on the present competitive situation.

The report was approved unanimously.

Merger application: Augusta-Belfast, Maine (Item No. 1). There had been circulated to the Board a file relating to the application of Depositors Trust Company, Augusta, Maine, for consent to its proposed merger with The First National Bank of Belfast, Belfast, Maine, under the charter and title of Depositors Trust Company, and for approval of the establishment of a branch at the present location of the national bank in Belfast. The recommendations of the Federal Reserve Bank of Boston and the Board's Division of Examinations were favorable, and letters reflecting the views of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Department of Justice with respect to the competitive aspects of the proposal were contained in letters included in the file. In summarizing its analysis of the application, the Division of Examinations stated:

The proposed merger would provide present customers of Belfast with better banking services and a larger source of credit, and would benefit the community through increased competition between banking facilities and greater available banking resources, all of which would appear to be in the public interest.

Governor Robertson expressed the view that there was nothing in the file to justify denial of this particular application. He felt,

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however, that the future development of the applicant bank should be watched carefully in view of its rapid expansion throughout the State of Maine.

Unanimous approval then was given to a letter to Depositors Trust Company consenting to the merger and approving the establishment of a branch at the location of the present office of The First National Bank of Belfast. A copy is attached as Item No. 1.

Mr. Noyes, Director, Division of Research and Statistics, entered the meeting at this point and Mr. Nelson withdrew.

Proposal for Reserve Bank employee to study at Bank of England (Item No. 2). A letter dated July 27, 1960, from the Federal Reserve Bank of San Francisco inquiring whether there would be any objection to having Jeanette Stoops, Associate Economist in the Research Department of that Bank, attend a study course for central bank personnel at the Bank of England, had been circulated to the Board with a proposed reply.

The reply, which indicated that the Board would have no objection to the proposed arrangement, was approved unanimously. A copy is attached as Item No. 2.

Proposal for Reserve Bank employee to undertake foreign assignment (Item No. 3). There had been distributed a memorandum dated August 3, 1960, from Mr. Marget, Director, Division of International Finance, regarding a request from the Center for Latin American Monetary Studies for Mr. George Garvy of the New York Reserve Bank's staff to act as a

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member of an international advisory panel in connection with a study of monetary policy in Latin America. The panel was to meet in Mexico City for approximately ten days beginning August 8, 1960. The matter was being considered today by the Board of Directors of the Bank.

On the basis of the information supplied in the memorandum, it was agreed that the Board would interpose no objection to the proposed arrangement if it should be acted upon favorably by the New York directors.

Secretary's Note: A copy of the letter sent to the Federal Reserve Bank of New York on August 10, 1960, is attached as Item No. 3.

Mr. Sammons then withdrew from the meeting.

Health insurance for retired Board employees. A memorandum from the Division of Personnel Administration dated July 25, 1960, relating to an improved health insurance plan for retired Board employees had been circulated to the Board. It pointed out that at the present time 78 retired Board employees held standard hospital and surgical service coverage with Blue Cross-Blue Shield. Until July 10, 1960, 22 of these retirees also had had major medical coverage. However, when the Federal Employees Health Benefits Act became effective, major medical coverage was terminated. Means of improving the hospital-surgical coverage for retired employees not covered under the Health Benefits Act had been explored with Blue Cross-Blue Shield, and it was learned that it would be possible to expand the present surgical service plan. Details of the increased coverage were outlined in an attachment to the memorandum.

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The increased coverage, it was noted, would result in additional cost to retirees and to the Board, and a poll of retired employees had been conducted. Of a total of 78 retirees, 60 voted for the expanded coverage, 8 voted against it, and 10 did not vote. According to the Blue Cross-Blue Shield plan, it would be necessary that retired employees as a group change their contracts to include the new coverage if the change was made. The present and proposed monthly rates for the increased coverage were summarized in the memorandum, which recommended:

- (1) That the Division of Personnel Administration proceed to enroll retired employees and eligible dependents for this new coverage to be effective October 1, 1960.
- (2) That the Board continue to pay one-half of the cost of the coverage for retirees and eligible dependents.

It was noted that the present annual rate of Board contributions for retirees' health insurance was \$4,094 per year; if the recommendations were adopted, the cost would increase to approximately \$5,205, and no provision for this increase had been made in the 1960 budget. However, since there had been a reduction in health insurance expenditures for active employees as a result of the new Government health insurance program, it was estimated that the cost of implementing the recommendations with respect to retired employees for the last three months in the year 1960 would cause an excess expenditure of only \$265 for the Board's total health insurance program. While the adoption of the recommendations would result in the Board's contributing a somewhat larger amount toward the cost of health insurance for retirees than for active employees, the

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Division of Personnel Administration felt that this was justified in order to give retirees the best protection possible. The insurance coverage for this group would still be less complete than that for employees retiring after July 10, 1960.

In response to a question from Governor Robertson, Mr. Johnson indicated that the procedure in connection with polling retired employees was similar to that followed recently when active Board employees voted on whether to accept a Government health program or to remain under the Board plan. The majority voted in favor of the Government program, and those indicating their preference for the Board plan had a choice of enrolling in one of the Government plans or not participating in any health insurance program. Similarly, the eight retirees not in favor of the proposed program could either go along with the plan favored by the majority or drop their coverage altogether. While they could also negotiate directly for health benefits, they would not be eligible for group rates since they would not be part of any group.

Mr. Johnson also pointed out that legislation was pending that would include retired employees of the Government under a Federal health insurance program. If such legislation should be passed, the Board's retired employees would be eligible for additional benefits.

Governor Shepardson noted that the letter sent to retired employees asking them to vote on their preference as to health plans had indicated that, if the majority favored the improved plan, it would be

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adopted. While eight retirees expressed a preference for the present plan, none of them said definitely that they would not enroll in the new plan.

After further discussion, the improved health insurance plan for retired Board employees was approved, with the understanding that, as in the past, the Board would continue to pay one-half of the cost of the coverage for participating retirees and eligible dependents. In voting to approve, Governor Robertson expressed the hope that the matter could be worked out in such a way that no retired employee would be injured because of the shift to the new program.

Vacation leave unused at time of death (Item No. 4). There had been circulated to the Board a memorandum from the Division of Personnel Administration dated June 16, 1960, relating to payments to beneficiaries for earned but unused vacation of Reserve Bank officers or employees dying while in active service. The memorandum referred to a letter dated January 25, 1960, from the Federal Reserve Bank of Atlanta appealing for reversal of the ruling against such payments. Specifically, the Bank requested permission to pay the widow of a former Cashier at the Jacksonville Branch for eight days' earned vacation, unused at the time of his death on December 13, 1959.

The Board's letter of August 3, 1938, (S-108a), stated that the "salary of any officer or employee dying while in the service of a Federal Reserve bank should be paid only to and including the date of his death."

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In February 1954 the Board reaffirmed this position after considering a request of the Conference of Presidents that the position be changed. At that time payments to beneficiaries of Board employees for unused vacation leave were being made on a restricted basis, in line with a Board decision in 1953 to conform with the pertinent provisions of Public Law 102, signed by the President earlier that year. However, another public law, signed September 1, 1954, removed the restrictions, and the Board then amended its personnel policy to conform with the provisions of the new law.

The Division of Personnel Administration recommended in its June 16 memorandum (1) that the Board approve a policy authorizing payment for earned but unused vacation to beneficiaries of any Reserve Bank officer or employee who died in active service, effective from the date of Board action, and (2) that the Board not approve the Atlanta Reserve Bank's request for payment of unused vacation leave to the beneficiary of the Jacksonville Branch officer who died in 1959. Drafts of letters reflecting these recommendations were attached to the memorandum.

Governor Shepardson said that he felt the Board could not justify an individual retroactive action. At first he had thought that it might be appropriate to authorize payments to beneficiaries of Federal Reserve Bank employees retroactive to 1954, the date of the most recent action involving payments to beneficiaries of Board employees. Upon further consideration, however, it appeared that there might be substantial

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problems of a practical nature. There was no information at hand as to how many cases might be involved at the respective Reserve Banks, and in a number of those cases the estates might already have been settled. These considerations tended to suggest making the authorization effective beginning with the date of Board approval.

Governor Robertson said that he would not favor authorizing the Reserve Banks to make payments to beneficiaries of deceased employees for unused leave simply because this practice was authorized in the case of Federal Government employees. Compensation of Reserve Bank personnel is determined on the basis of surveys of local area rates, he pointed out. If this basis was used, while at the same time benefits accruing to Government employees also were passed along to Reserve Bank employees, the Federal Reserve might be vulnerable to the charge of considering such employees as Government employees when there was anything to be gained but not on other occasions. If the practice proposed to be authorized was a generally accepted fringe benefit extended by other employers in areas where the respective Reserve Banks compete for labor, he would approve, but not simply because this particular fringe benefit had been made available for Government employees. Accordingly, he would vote against authorizing payments to beneficiaries of Reserve Bank employees for unused leave unless surveys of local conditions should indicate that this practice was being followed generally by private enterprises in the respective Reserve Bank localities and adoption of the practice was

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necessary in order to obtain and hold staff. In view of this position, it followed that he would automatically vote against approving the retroactive payment for which authorization had been sought by the Atlanta Bank.

Governor Shepardson said it was his understanding that vacation leave was widely considered in business and industry today as an earned benefit, and Mr. Johnson noted that the present rule tended to create an inequity. If a Reserve Bank employee resigns, payment is made for unused leave, but if the employee dies no payment is made. A basic reason for the present recommendation was to correct this inequity.

Reference was made to the relationship of benefits provided through the Federal Reserve Retirement System and through retirement systems of private concerns, following which, at the request of Governor Balderston, Mr. Hexter commented on the retroactive aspects of the matter, indicating that since the prohibition against payment for unused leave of a deceased Federal Reserve Bank employee was in effect at the time of the death of the Atlanta Reserve Bank officer, any payment to his beneficiary might be construed to be in the nature of a gift. In the circumstances, he leaned in the direction of thinking that such a payment would be of doubtful legality. With further reference to the request of the Atlanta Reserve Bank, he noted that there were undoubtedly other cases involving similar circumstances that would be just as worthy of consideration.

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After further discussion of the Atlanta request, Governor Mills indicated that he would favor adopting the recommendation of the Division of Personnel Administration. It was his understanding that it is almost a general practice in private business to pay the salary of a deceased employee through the end of the month, and few vacations would extend for a period longer than a month. He also referred to a recent study by the United States Chamber of Commerce which pointed out that banks and insurance companies have been leaders in providing fringe benefits for their employees, and the Reserve Banks compete for employees in the same sector of the market as such institutions. As to the retroactive aspects of the matter, he felt a decision might be deferred pending further study of the legal and historical questions involved. He did not believe it was possible to correct all of the inconsistencies surrounding various employee benefits, and in this connection he presented certain illustrations. In studying further the possibility of authorizing retroactive payments, he suggested that consideration might be given to 1954 as a base date, since that was when legislation was enacted authorizing payments to beneficiaries of Federal Government employees for unused vacation leave on the current basis and since the Board had taken confirming action in respect to its own employees.

Governor Robertson repeated that, in the absence of survey information as to practices followed by private enterprises with which the Reserve Banks must compete for staff, he would vote against authorizing payments to beneficiaries of Reserve Bank employees for unused leave.

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Governor Shepardson referred again to the inequity as between persons severing employment voluntarily and those whose services are severed involuntarily by death. He then indicated that he would be in favor of authorizing payment from this date forward for unused leave to beneficiaries of Reserve Bank employees. With respect to making the action retroactive, he noted that information was not available as to the number of cases that might be involved in going back to the 1954 date or as to the complications that might be presented.

Governor King said that he did not regard vacation as an earned benefit. Instead, he felt that a vacation is given in order that an employee may make himself fit for better service upon his return. He noted that there was reference in the file to earlier consideration of this question by the Board and Federal Reserve Banks, which suggested that it might be desirable to refer the matter to the Presidents' Conference before taking action in the interest of maintaining good relations. As of now, he would vote against the recommendation that payments to beneficiaries of Reserve Bank employees for unused leave be authorized, although conceivably he might change his position if the matter were referred to, and studied by, the Presidents' Conference.

Governor Robertson then referred to the death benefit available to beneficiaries of Reserve Bank employees dying in active service, which would far more than offset any payment made for unused vacation to an employee who resigns.

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Governor Balderston discussed the trend of personnel policies generally and observed that the present trend seemed to be in the direction of considering vacation as earned and being owed to an employee. He then said that he would vote with Governors Mills and Shepardson to approve the proposed letter to the Federal Reserve Banks authorizing payment for unused vacation leave to beneficiaries of Reserve Bank employees effective from the date of Board action. With respect to the Atlanta case, he expressed concern about the seeming inequity of rejecting the specific request that had prompted reconsideration of the whole matter and about the possible effect on employee relations. In the circumstances, he indicated that he would favor further exploration of the possibility of providing for payments retroactively on some basis that might be considered justifiable.

After further discussion, it was agreed to authorize payment for earned but unused vacation leave to beneficiaries of Reserve Bank officers and employees dying while in active service, effective as of this date, this authorization to be applied on a uniform basis in all such cases as might arise at any Federal Reserve Bank. On this action, Governors Robertson and King dissented for the reasons they had stated. A copy of the letter sent to all Reserve Bank Presidents pursuant to this action is attached as Item No. 4.

Mr. Kern, Assistant Director, Division of Administrative Services, joined the meeting during the foregoing discussion and Mr. Johnson withdrew at this point.

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Insurance on Board's automobiles. There had been distributed a memorandum from the Legal Division dated August 2, 1960, relating to public liability insurance on the Board's automobiles. It was noted that the Hardy Subcommittee had raised a question regarding the need to carry such insurance. In this connection, it was pointed out that the Board's present policy, which would expire August 11, costs about \$350 a year, and that it provides protection for bodily injury up to \$100,000/300,000 limits and for property damage up to \$10,000 in any one accident. The general Government practice in regard to liability on automobiles is to be a self-insurer. Claims arising from the operation of Government automobiles are settled in accordance with the Federal Tort Claims Act, which authorizes agencies to make final settlement of claims up to a stated amount and gives the United States District Courts jurisdiction to hear cases and render judgments regardless of the amount. It was assumed that the provisions of the Federal Tort Claims Act probably were applicable to the Board, although this had never been tested in court. The principal objection to the Board's becoming a self-insurer appeared to relate to the fact that settlement of claims is a somewhat specialized field, frequently requiring the use of trained investigators and adjustors.

In its reply to the Hardy Subcommittee dated June 29, 1960, the Board had indicated that before discontinuing a practice that had worked well over the years at relatively small cost, it would want to make a full

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examination of the advantages and disadvantages involved in becoming a self-insurer.

Governor Shepardson reported that he had reviewed the matter with the Legal and Administrative Services Divisions and with the Controller. He pointed out that the cost of the liability insurance was nominal in comparison with the cost that might be involved in settling any one large claim. Therefore, despite the favorable record over the past several years, it was his judgment that this was a worthwhile expenditure and that no change should be made in the present practice of carrying liability insurance.

During the discussion that followed, Governor Shepardson noted that General Services Administration, which operates a large number of automobiles, has a division to handle liability claims, and that a number of other agencies apparently have their own claims sections.

There followed discussion of the manner in which it was understood that claims against the Board would be handled if the Board were to become a self-insurer.

The view then was expressed by members of the Board that it would be preferable for the Board to continue to carry insurance with a private firm, that payment of the relatively small premium was defensible, and that the Board's automobile operations were too small to make self-insurance an appropriate procedure.

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Accordingly, unanimous agreement was expressed with Governor Shepardson's recommendation that liability coverage on the Board's automobiles be continued.

During the foregoing discussion Mr. Dembitz, Associate Adviser, Division of Research and Statistics, joined the meeting and at its conclusion Mr. Kern withdrew.

Absorption of exchange charges (Item No. 5). A memorandum dated August 3, 1960, from Governor Robertson recommending a proposed interpretation regarding the absorption of exchange charges as payment of interest on deposits had been distributed.

The memorandum referred to a meeting which was held on July 26, 1960, with representatives of the Federal Reserve System and the Comptroller of the Currency present, to discuss questions that had arisen out of direct and indirect exchange absorption practices followed by certain banks in the Dallas area. Representatives of the Federal Deposit Insurance Corporation also attended, principally as observers.

At the meeting Mr. Irons, President of the Federal Reserve Bank of Dallas, reported that representatives of the Dallas banks had met with bankers from Pine Bluff and Little Rock, Arkansas, and it had been agreed that on August 1, 1960, the banks in Dallas, Pine Bluff, and Little Rock would discontinue the direct absorption of exchange charges on all checks drawn on Arkansas points. However, the Dallas banks had expressed

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serious doubts whether their efforts in this direction would be successful unless the supervisory authorities took a firm position on the subject. After full discussion of the nature and extent of the problem, it had been agreed by those attending the meeting that the best solution would be for the Board to issue a general interpretation to the effect that all absorption of exchange charges by member banks, both direct and indirect, constituted a payment of interest on demand deposits. A draft of an interpretation along these lines was attached to the memorandum, with the recommendation that it be approved and published in the Federal Register and the Federal Reserve Bulletin and that a copy be sent to each member bank.

With respect to direct absorption of exchange charges, it was noted in the memorandum that the proposed interpretation was generally similar to the position previously taken by the Board except that the absorption of as much as \$2 per month per account, as permitted in a 1945 ruling, would no longer be sanctioned. It was thought that the publication of any specific figure should be avoided, but that a \$2 figure or some other similar amount could, if desired, be applied administratively by the bank examiners. The proposed ruling would also supersede a 1944 interpretation that in effect permitted direct absorption in limited types of cases where absorption would cost less than the charging back of exchange. (It was noted that there was some reason to believe that the 1944 interpretation was intended to have been superseded by the \$2 rule.)

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The proposed position that indirect absorption of exchange charges through circuitous routing would represent the payment of interest would reverse unpublished letters of the Board in 1947, 1951, and 1952. Those letters had expressed the opinion that "since the member bank does not itself absorb exchange charges, it would not appear that there is a payment of interest by the member bank in violation of the law or the Board's Regulation Q."

In discussing the July 26 meeting and the circumstances that led up to it, Governor Robertson said the question was one of finding ways and means of dealing with a problem that had grown and was expanding drastically. Basically, the problem arose out of past efforts to police in a reasonable way a "non-policeable" statute prohibiting the payment of interest on demand deposits. At the present stage of affairs, it appeared that the problem could be dealt with only by taking a firm, straightforward position that the absorption of exchange charges, directly or indirectly, constitutes the payment of interest on demand deposits or, in the alternative, reversing the Board's position in order to permit all member banks to compete on the same basis.

In this connection Governor Robertson noted that Messrs. Cocke and Greensides of the Federal Deposit Insurance Corporation attended the July 26 meeting principally for the purpose of keeping the Corporation informed, since the Corporation has its own statute to administer and has taken a different position in interpreting that statute. The suggestion

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had been made to them at the meeting that the Corporation reconsider its position, and it had been indicated that this would be done, although the immediate reaction of Messrs. Cocke and Greensides was that the problem was rather small as far as the Corporation was concerned.

Continuing, Governor Robertson said that as the result of the meeting the representatives of the Comptroller's Office, who included the Comptroller, the Chief National Bank Examiner, and four District Chief Examiners, and the representatives of the Federal Reserve System, who included the Presidents of the Atlanta, St. Louis, Kansas City, and Dallas Reserve Banks, reached an understanding that there should be prepared a draft of interpretation that would take a firm anti-absorption position. Such a draft subsequently was submitted to the Comptroller and to the four Presidents, and the Comptroller had now replied by letter that he had no suggestions to make and that the national bank examiners would police such an interpretation. The suggestions of the four Reserve Bank Presidents had been taken fully into account in the proposed interpretation that was now before the Board. Mr. Cocke, to whom a copy of the draft also was sent, stated that he had no suggestion and that he did not know what other position the Board could take. Mr. Cocke thought there might be a question of procedure as to whether the interpretation should be broadcast or whether the position taken in it should be allowed to leak out in order to obtain reactions.

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Governor Robertson noted that First Vice President Wayne of the Federal Reserve Bank of Richmond, who did not attend the July 26 meeting, had subsequently expressed the view orally that the earlier interpretations of the Board were reasonably workable and that adoption of the current proposal might cause some smaller banks to leave the Federal Reserve System. Upon being advised of this point of view, Mr. Cocks had expressed the opinion that there might be a few such cases but that the number would not be large.

Governor Robertson suggested that inasmuch as the proposed interpretation would reverse certain previous rulings of the Board, the members of the Board might wish to explore the views of the legal staff. Personally, however, he was satisfied that the problem had reached a point where the Board must decide whether the absorption of exchange charges was or was not to be prohibited. Within a short time after the \$2 rule was issued, he had become convinced that a mistake had been made and that a measure of such kind should have been established only as an internal administrative guide in determining whether to take action against a particular bank. As it was, some banks had used and expanded the procedure as a basis for competing for deposits of other banks. Certain aggressive banks had been enabled to compete unfairly with those banks that were willing to abide by the rules.

Governor Robertson also reported conversations with Mr. Homer Livingston, President of the Federal Advisory Council, and Mr. Fred Florence, a Dallas banker, both of whom expressed the view that if the

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Board were to take a position such as set forth in the proposed interpretation, that position would have a good chance of being accepted by the reserve city bankers. As noted in the memorandum distributed to the Board, certain area banks had agreed to terminate the direct absorption of exchange with respect to items on Arkansas points, effective the first of August, but only to afford the supervisory authorities a chance to take action. If the interpretation were issued, there would no doubt be unfavorable reactions on the part of some banks throughout the country, but on the whole it was his (Governor Robertson's) opinion that the reaction on the part of a great majority of the banks would be favorable, despite the fact that some accounts might be lost.

Governor Robertson commented that the whole problem of nonpar banking was diminishing, that it was contrary to the public interest for the problem to exist at all, and that the point had been reached where an interpretation of the kind contemplated apparently could be prescribed effectively. If it did not work, the Board should request new legislation so that all banks might compete on a parity.

Mr. Hexter commented that the Board is authorized specifically by the Federal Reserve Act to determine what shall be regarded as a payment of interest; and in its Regulation Q, Payment of Interest on Deposits, the Board had said that any payment to or for the account of a depositor for the use of funds constituting a deposit shall be considered the payment of interest. Interpretations of the Board had narrowed this down

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pretty much to actual payments, but an argument could be made that the absorption of exchange would constitute a payment on behalf of the depositor. If the Board wished to take that position, it could amend Regulation Q or it could probably issue an interpretation, and its position almost certainly would be upheld legally.

Governor Robertson indicated that the possibility of an amendment had been considered, but that it was concluded an interpretation would be preferable because of the time pressure. If desired, the interpretation could be issued and an amendment adopted at a later date.

Governor Mills said that he would accept the recommendation and would favor adoption of an interpretation in the form suggested by Governor Robertson as a trial. He thought that such an interpretation would have a temporary salutary effect, although he felt it was only a matter of time until banks would backslide. Therefore, he would prefer an interpretation rather than amendment of Regulation Q at this juncture, believing that there was a considerable problem involved and that after a trial period the Board would feel compelled to review the results of the interpretation. If at that time the Board should be disposed to modify its position, it would be easier to change the interpretation than to amend the regulation again. He was of the opinion that a problem would arise from the charging-back of small amounts, resulting in irritation to bank customers, and that nonmember banks might take advantage of their position to attract correspondent bank business.

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Governor Shepardson said his reaction was similar to that expressed by Governor Mills. While he had some doubt as to the lasting effects of the proposed interpretation, he would favor its adoption. He felt that the Board should have definite plans for reviewing the law as it relates to the whole question of payment of interest on deposits. Plans should be made in advance so that if the interpretation did not prove to be effective, the Board would be ready to move in the direction of requesting legislation that would clarify various questions in this field.

Governor King indicated that he wished to abstain from voting on this matter for personal reasons.

Governor King also referred to problems that might arise upon issuance of the proposed interpretation and raised the question of deferring action until a full Board was available. The comments in response to this question emphasized the urgency of the situation. It was noted that, although Chairman Martin had not seen the specific proposal, he was aware of the existence of the problem and had commented on it.

Governor Balderston raised a question as to what sanctions were available if banks failed to comply with the proposed interpretation, and Governor Robertson replied that there were none, assuming that the System would not want to oust a bank from membership for failure to comply. The success of the interpretation would depend on self-policing and the exercise of moral suasion. In this connection, he noted that, as

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aforsaid, the Comptroller had stated that the national bank examiners would join in policing the interpretation. Governor Robertson added that it was not contemplated that the Federal Reserve Bank or national bank examiners would be completely adamant in their position on this matter. There must be a rule of reason, but it should be an internal rule used by the supervisory authorities.

After further discussion, the Board approved the proposed interpretation, Governor King abstaining. It was understood that the interpretation would be published in the Federal Reserve Bulletin and the Federal Register and that the Federal Reserve Banks would be requested to send a copy to each member bank in their respective districts. A copy of the interpretation is attached as Item No. 5.

During the foregoing discussion Mr. Molony, Assistant to the Board, joined the meeting. At its conclusion Mr. Hooff withdrew and Mr. Fauver, Assistant to the Board, entered the room.

Vault cash and related matters. Reference was made to staff projections indicating that a substantial amount of additional reserves would have to be provided beginning later this month, which raised the question whether action in the form of a further release of vault cash would be desirable in supplementation of the open market instrument. Accordingly, Governor Balderston suggested the advisability of further preliminary discussion so that, if it then seemed desirable, the Board might be prepared to take action at a relatively early date.

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There followed a lengthy general discussion of possible alternative courses of action with respect to the further release of vault cash, including the most appropriate effective dates and the desirability of an advance announcement of action to be taken. It was noted that an early announcement of any action to be taken would provide an opportunity for the discussion at the Federal Open Market Committee meeting on August 16 to reflect expressions regarding open market policy in the light of such announcement. Also discussed was the possibility of working out some procedure whereby a total of about \$1 billion in reserves would be released in two separate packages, possibly in August and November 1960. This program might involve the tying-in of a further release of vault cash with a reduction of reserve requirements at central reserve city banks, reclassification of cities for reserve purposes, and revision of the maximum deferment time under the check collection schedule.

In the course of the discussion, during which various views of a tentative nature were expressed by members of the Board, consideration was given to the three possible plans for releasing reserves described in a memorandum dated July 26, 1960, from Messrs. Thomas and Dembitz, along with variations thereon. In this connection, Governor King referred to his previously expressed views on the possibility of releasing a flat percentage of vault cash held by all banks, and there was a discussion of the problems involved in such a course of action.

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Governor Robertson, who withdrew during the discussion, described certain information that he would like to have in addition to that already furnished by the staff.

On the basis of the tentative views expressed at this meeting, it was understood that there would be further discussion next week looking toward the possibility of arriving at a consensus at a relatively early date.

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 relating to the Board's staff:

Appointments

Elizabeth I. Dietrich as Statistical Clerk in the Division of Bank Operations, with basic annual salary at the rate of \$4,040, effective the date of entrance upon duty.

Edward D. Rogers as Cafeteria Laborer in the Division of Administrative Services, with basic annual salary at the rate of \$3,185, effective August 7, 1960.

Transfers

Barbara Ann Byrne, from the position of Clerk-Stenographer in the Division of Personnel Administration to the position of Minutes Clerk in the Office of the Secretary, with no change in her basic annual salary at the rate of \$4,040, effective August 7, 1960.

Sandra J. Rider, from the position of Clerk-Stenographer in the Division of Personnel Administration to the position of Stenographer in the Division of Examinations, with no change in her basic annual salary at the rate of \$4,040, effective August 7, 1960.

8/4/60

-27-

Acceptance of resignations

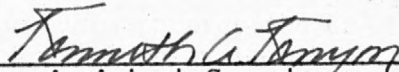
Sally Lou Diffley, Stenographer, Division of Examinations, effective August 1, 1960.

Ann S. Gormus, Clerk-Stenographer, Division of Bank Operations, effective July 31, 1960.

Outside business activity

John T. McClintock, Review Examiner, Division of Examinations, to work part time as a real estate salesman for Managed Properties, Inc., Springfield, Virginia.

Governor Shepardson also approved today on behalf of the Board a letter to the Federal Reserve Bank of San Francisco (attached Item No. 6) approving the appointment of Brent F. Mahoney as assistant examiner.


Assistant Secretary

Assistant Secretary

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

Item No. 1
8/4/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 4, 1960

Board of Directors,
Depositors Trust Company,
Augusta, Maine.

Gentlemen:

The Board of Governors of the Federal Reserve System, after consideration of the factors set forth in section 18(c) of the Federal Deposit Insurance Act, as amended by the Act of May 13, 1960, and finding the transaction to be in the public interest, hereby consents to the merger of The First National Bank of Belfast, Belfast, Maine, into Depositors Trust Company, Augusta, Maine. The Board of Governors also approves the establishment of a branch by Depositors Trust Company in Belfast, Maine, at the location of the present office of The First National Bank of Belfast.

This approval is given provided the transactions are consummated within six months from the date of this letter and shares of stock acquired from dissenting shareholders are disposed of within six months from date of acquisition.

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
8/4/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 4, 1960

Mr. H. N. Mangels, President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Mangels:

This will acknowledge your letter of July 27, 1960, regarding a proposal that Miss Jeanette Stoops, Associate Economist in the Research Department of your Bank, attend a study course for central bank personnel at the Bank of England. The Board has no objection to the arrangements you propose to make.

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
8/4/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 10, 1960

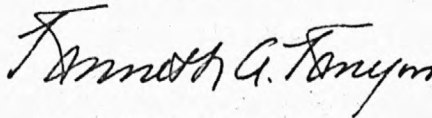
Mr. William H. Braun, Jr., Secretary,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Braun:

This is to acknowledge your letter of August 5, 1960 regarding the granting of a leave of absence with pay to Mr. George Garvy for a period of approximately two weeks to act as a member of an advisory group to consider a study on "The Use of Monetary Policy in Latin America," as requested by the Center for Latin American Monetary Studies. It was noted that your Bank will also assume the travel and subsistence expenses incurred by Mr. Garvy in this connection.

The Board of Governors interposes no objection to this leave of absence for Mr. Garvy.

Very truly yours,



Kenneth A. Kenyon,
Assistant Secretary.



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

Item No. 4
8/4/60
S-1755

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 4, 1960.

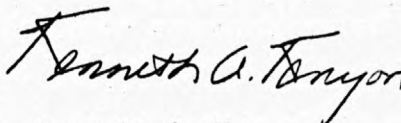
Dear Sir:

Reference is made to the Board's letter of August 3, 1938 (S-108a, F.R.L.S. #9089), which provided that salary of any officer or employee dying while in the service of a Federal Reserve Bank should be paid only to and including the date of his death.

The Board has reviewed the policy stated in S-108a and authorizes payment to the beneficiary of any officer or employee who dies on or after the date of this letter, while in the service of a Federal Reserve Bank, for any earned, but unused, vacation leave, in addition to salary payments due the deceased officer or employee to and including the date of death. In authorizing such payments, the Board does so with the understanding that the authorization will be applied on a uniform basis in all such cases as may arise at any Federal Reserve Bank.

Accordingly, this letter supersedes S-108a, F.R.L.S. #9089.

Very truly yours,



Kenneth A. Kenyon,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Item No. 5
8/4/60

S-1756-a

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

ABSORPTION OF EXCHANGE CHARGES AS PAYMENT OF INTEREST ON DEPOSITS

The Board has had occasion to consider whether certain practices involving the absorption of exchange charges constitute the payment by a Federal Reserve member bank of interest on demand deposits in violation of Regulation Q, Payment of Interest on Deposits, and Section 19 of the Federal Reserve Act.

One question was whether such absorption would constitute the payment of interest on demand deposits when the amounts absorbed by a member bank are claimed to be less than the cost of collecting them from depositors. Another question was whether a member bank would be paying interest on demand deposits if it maintained balances with another bank or banks in return for which such other bank or banks directly or indirectly would absorb for it exchange charges made by the drawee banks.

Upon a careful review of the subject, the Board has concluded that both these practices should be deemed to be the payment of interest on demand deposits in violation of Regulation Q and Section 19 of the Federal Reserve Act. In other words, the payment of interest includes any direct or indirect payment or absorption of exchange charges by any device whatsoever, regardless of whether such payment or absorption is made directly by a member bank or indirectly through any other bank for a member bank or a depositor of such member bank. This principle will be applied hereafter by examiners for the Federal Reserve Banks in their examinations of State member banks and the Comptroller of the Currency has advised that it will be applied by national bank examiners in their examinations of national banks.

In reaching this conclusion the Board has carefully reexamined earlier interpretations on the subject, and this interpretation supersedes all such earlier interpretations, including those published in the 1944 Federal Reserve Bulletin, p. 339, and 1945 Federal Reserve Bulletin, p. 564.

August 4, 1960.

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

Item No. 6
8/4/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 4, 1960

Mr. H. N. Mangels, President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Mangels:

In accordance with the request contained in your letter of July 29, 1960, the Board approves the appointment of Brent F. Mahoney as an assistant examiner for the Federal Reserve Bank of San Francisco. Please advise as to the effective date of the appointment.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

