

Minutes for August 10, 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 proposed to place in the record of policy actions required to be kept under the provisions of Section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below:

Page 5 Amendment to Regulation J, Check Clearing and Collection.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin

Gov. Szymczak

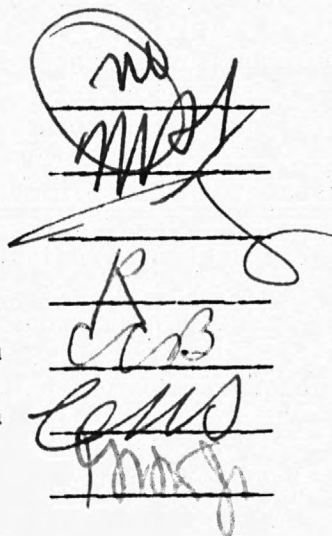
Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King


The block contains handwritten initials and signatures for each board member listed to the left. From top to bottom: Chm. Martin has a large circular mark with 'no' inside; Gov. Szymczak has a signature; Gov. Mills has a signature; Gov. Robertson has a signature; Gov. Balderston has the initials 'CCB'; Gov. Shepardson has a signature; Gov. King has a signature.

Minutes of the Board of Governors of the Federal Reserve System

On Wednesday, August 10, 1960. The Board met in the Board Room at 10:00 a.m.

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

Mr. Kenyon, Assistant Secretary
Mr. Noyes, Director, Division of Research and Statistics
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Chase, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Landry, Assistant to the Secretary
Mr. Hooff, Assistant Counsel
Mr. Collier, Chief, Current Series Section, Division of Bank Operations

Discount rates. The establishment without change by the Federal Reserve Bank of St. Louis on August 9, 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.

Hearing arrangements on Northwest Bancorporation application
(Item No. 1). There had been distributed under date of August 9, 1960, a memorandum from Mr. O'Connell reporting, pursuant to the understanding at the meeting on August 2, 1960, on arrangements for a public hearing on

8/10/60

-2-

the application of Northwest Bancorporation, Minneapolis, Minnesota, to acquire stock of the proposed Roseville Northwestern National Bank, St. Paul, Minnesota. This application had been made to the Board pursuant to section 3(a) of the Bank Holding Company Act of 1956. It was noted in the memorandum that the proposed date and place of the hearing were agreeable to all parties concerned and that the attached Order, if it met with the Board's approval, would be published in the Federal Register, with copies to the applicant and to each of the parties who had objected to the proposed acquisition.

Unanimous approval was given to the Order, a copy of which is attached as Item No. 1, with the understanding that hearing arrangements along the lines set forth in Mr. O'Connell's memorandum would be completed.

Secretary's Note: Pursuant to this understanding, arrangements were completed on August 16, 1960, for the detail to the Board of Mr. Herman Tocker to serve as Hearing Officer.

Mr. O'Connell then withdrew from the meeting.

Use of examination report (Item No. 2). At the request of Governor Robertson, there had been placed on the agenda for further consideration the request of Pacific State Bank, Hawthorne, California, for permission to allow the State Corporation Commissioner to review the latest report of examination of the bank in lieu of an audit report that would otherwise be required. At its meeting on August 8, 1960, the Board had agreed to grant the requested permission, but the letter advising the bank of the decision had not as yet actually been mailed.

8/10/60

-3-

Governor Robertson noted that certain background information had not been brought out during the previous discussion of this matter. He then referred to an outstanding letter of the Board (F.R.L.S. #3621; September 24, 1943) which indicated that reports of examination should not be made available to outside parties, including agents of courts of law, by the bank concerned, even though the bank was agreeable to the furnishing of the report. This letter also indicated that the policy referred to therein reflected the view of all three of the Federal bank supervisory agencies.

Governor Robertson indicated that he had not changed his own position on this question. For reasons stated at the August 8 meeting, his view was that permission should be granted to banks making such requests when public officials were involved.

Mr. Solomon then commented on the questions that had resulted in the issuance of the 1943 letter. In this connection he noted that there could be instances in which a bank making such a request might do so under pressure. He also referred to discussion that Mr. Hooff had had with the Comptroller's Office following receipt of the current request, during which that Office had indicated that it would not permit the release of an examination report by a national bank in such circumstances; that at most it might offer to make certain sections of a report of examination available for inspection by the public official concerned.

8/10/60

-4-

Mr. Solomon said that Mr. Hooff had also discussed this matter with the San Francisco Reserve Bank to determine whether a recent State examination report was available to the Pacific State Bank. Mr. Hooff was informed, however, that the State did not participate in the most recent examination of this bank by the Federal Reserve Bank. The Reserve Bank also had reaffirmed its opposition to granting the requested permission to the bank to make the current report of examination available to the State Corporation Commissioner. A possible alternative suggested by the Reserve Bank, in the event the Board took a different view, would be that the Commissioner be invited to get in touch with the Reserve Bank, and that the Reserve Bank be authorized by the Board to make certain sections of the report available to the Commissioner.

Following further discussion of the matter, Governors Mills and Shepardson, who dissented from the original decision to grant the request of Pacific State Bank, indicated that they continued of the same view. Governors Szymczak and King indicated that in the light of the additional background information that had now been presented they would also favor denying the request.

Governor Robertson, who along with Governor Balderston continued to feel that the request should be granted, stated in explanation of his position that the 1943 ruling was designed to protect the banks and not the supervisory authorities. When, as in this case, the bank concerned

8/10/60

-5-

desired to allow a public official to have access to the report, he felt that it should be permitted to do so.

Thereupon, it was agreed, Governors Balderston and Robertson dissenting, that a letter in a form reflecting certain suggestions made by Governor Mills at the August 8 meeting be sent to Pacific State Bank denying its request for permission to allow the State Corporation Commissioner to review the current report of examination of the bank. A copy of the letter, as sent, is attached as Item No. 2.

Mr. Fauver, Assistant to the Board, entered the room at this point.

Absorption of exchange charges. Governor Mills stated that he had received a request yesterday from Mr. J. O. Brott, Jr., General Counsel of the American Bankers Association, for a meeting tomorrow regarding the Board's interpretation of August 4, 1960, relative to absorption of exchange charges. It was understood that Mr. Brott would be accompanied by Messrs. Melvin Miller and G. Edward Cooper, also representing the American Bankers Association.

After discussion it was understood that available members of the Board, along with appropriate members of the Board's staff, would meet with the representatives of the American Bankers Association at 2:00 p.m. tomorrow.

Mr. Hooff then withdrew from the meeting.

Amendment to Regulation J (Items 3 and 4). There had been distributed a memorandum from Mr. Chase dated August 4, 1960, submitting

8/10/60

-6-

a proposed amendment to Regulation J, Check Clearing and Collection, regarding "headache" checks, and also recommending concurrence in proposed changes in certain uniform paragraphs of the operating circulars of the Federal Reserve Banks relating to the collection of cash and noncash items. Attached to the August 4 memorandum were (1) a memorandum on the subject from Mr. Hackley dated May 31, 1960; (2) a statement for the Federal Reserve Bulletin regarding the amendment to Regulation J; (3) material for the Federal Register regarding this amendment; and (4) a draft of letter to the Federal Reserve Banks.

Mr. Chase's memorandum noted that at its meeting in June 1960 the Conference of Presidents approved the recommendations contained in a joint report of the Subcommittee on Collections and the Subcommittee of Counsel on Collections dated May 25, 1960, with respect to the following:

- (1) Revision of certain uniform paragraphs and adoption of new uniform paragraphs in the operating circulars of the Federal Reserve Banks relating to the collection of noncash items, stemming from the review of a 1959 survey of the noncash operating practices and procedures of the Federal Reserve Banks and branches.
- (2) Revision of the uniform check routing symbol paragraph in the operating circulars relating to the collection of cash items to include appropriate reference to magnetic ink encoding.
- (3) That the Federal Reserve Banks continue to handle "headache" checks as cash items, but that Regulation J and the check collection operating circulars be revised to indicate that the Federal Reserve Banks have the authority to handle "headache" checks as cash items subject to prescribed conditions; also that a public announcement of the changes and their purpose be made.

8/10/60

-7-

Mr. Hackley's memorandum of May 31, 1960, referred to the conclusion of the two Subcommittees that it would be preferable for the Reserve Banks to receive "headache" checks as cash items under Regulation J rather than as noncash items, but with reservation of the right to require separate sorts or earlier closing times for the receipt of items such as "envelope" drafts, which for physical reasons are not adapted to processing by "high speed document handling equipment." The memorandum indicated the desirability of amending Regulation J in order to forestall any legal questions that might be raised even though the present Regulation might be sufficient to authorize the receipt of "headache" checks subject to the aforementioned conditions. It was felt that such action would serve to inform banks and other interested parties of the nature of operational problems posed by the collection of "headache" checks and would help to secure their cooperation in eliminating these problems. It was also pointed out that in addition to making it clear that "headache" checks would be received subject to conditions as to sorting and closing times, the proposed amendment to Regulation J would serve the desirable secondary purpose of indicating that certain types of checks may properly be handled as noncash items.

Following discussion, unanimous approval was given to the proposed amendment to Regulation J, effective immediately. Also, it was agreed to advise the Federal Reserve Banks that the Board concurred in the proposed changes in certain uniform paragraphs of the operating circulars

8/10/60

-8-

of the Banks relating to the collection of cash and noncash items. A copy of the amendment to Regulation J is attached as Item No. 3, and a copy of the letter sent to the Reserve Bank Presidents pursuant to the Board's action is attached as Item No. 4.

Mr. Chase then withdrew from the meeting.

Disclosure of names and locations of bank subsidiaries of bank holding companies. Under date of August 9, 1960, a memorandum from Mr. Solomon had been distributed recommending disclosure of the names of bank subsidiaries of bank holding companies when such information is requested from the Board. The memorandum referred to the Board's practice of publishing in the Federal Reserve Bulletin a list of (1) registered bank holding companies, and (2) State totals of offices and deposits of banks in holding company groups. With respect to the current policy of not making available the names of individual subsidiary banks, the memorandum pointed out that in most cases the holding companies publish such information, and in some cases advertise it. Although the Bank Holding Company Act does not require the Board to disclose the names of subsidiary banks, the view was expressed that such disclosure might be desirable and could be distinguished from disclosure of broader types of information. It was the recommendation of the Division of Examinations, therefore, that the Board adopt the policy of disclosing the names and locations of subsidiary banks of bank holding companies upon request, but

8/10/60

-9-

that the information not be published in the Federal Reserve Bulletin, principally because it would not be of general interest.

In commenting on the matter, Mr. Solomon brought out that for some time Mr. Molony, Assistant to the Board, had felt that it would be advisable to make information of this kind available to the public upon request. Mr. Hexter commented that there was no question from a legal standpoint regarding the proposed procedure, which he favored as a matter of policy.

In further discussion of the matter, Governor Mills said that although he had originally doubted the advisability of releasing information of this character, he had been won over to the point of view expressed in the memorandum and now felt that the suggested procedure would be desirable.

Thereupon, a policy of disclosing upon request the names and locations of subsidiary banks of bank holding companies was approved unanimously.

Mr. Sammons, Associate Adviser, Division of International Finance, joined the meeting at this point and Mr. Hostrup withdrew.

Statement by the New York Reserve Bank in regard to transactions of foreign central banks in the New York market. At the meetings of the Board on June 15 and July 7, consideration was given to a draft statement prepared at the New York Reserve Bank under date of June 8, 1960, with regard to maintenance of accounts for foreign central banks and other

8/10/60

-10-

foreign institutions by the Reserve Bank. This statement, a copy of which had been handed by President Hayes to Chairman Martin, took the position that it was appropriate for any central bank or other foreign official institution maintaining substantial holdings in the New York market to have an account at the New York Reserve Bank. It further stated that to the extent foreign official institutions preferred to execute transactions in United States Government securities through commercial banks or other agents, the Reserve Bank considered that its responsibilities in the New York money market compelled it to request those institutions to give it advance information of all transactions of substantial size. The Reserve Bank would also expect such institutions to provide at its request timely information on substantial shifts of funds from one asset category to another where such assets were in forms other than United States Government securities and it was not found convenient to execute these transactions through the Reserve Bank. Subject to the foregoing conditions, these institutions were considered free to hold the types and amounts of dollar assets suitable to their needs, including any commercial requirements, and to conduct transactions through agents of their choice.

Governor Balderston recalled that in accordance with an understanding reached at the July 7 meeting arrangements were made for President Hayes to discuss this subject with the Board and that he did so at an informal meeting on July 26, 1960, following which it was decided that the

8/10/60

-11-

Board would consider the matter further following Governor Szymczak's return from vacation. The consensus on the draft statement had been, Governor Balderston thought, that it was appropriate as a guide for the internal operations of the New York Reserve Bank. However, so far as other use of the statement was concerned, there was some question whether it should be communicated either to the other Reserve Banks or to commercial banks in New York City. One proposal, advanced by Mr. Hayes, had been that he might discuss the subject at a regular meeting of a group comprised of representatives of New York City banks most closely identified with the foreign banking function, without actual communication of the June 8 statement to the commercial banks.

Governor Mills said he continued to feel that there was no reason to give public notice to procedures already in effect, since this would only raise a question as to whether there might be a change in the policy of the Federal Reserve Bank regarding the need for foreign central banks to channel information to the Reserve Bank in order that it might have more complete knowledge of their operations in the New York market. At a time like the present, when the foreign exchanges were unsettled and future developments in that field were difficult to foresee, any public statement, even though made informally, was likely to be exaggerated, and it might be regarded by the New York City banks that operate in the foreign field as an invitation by the Reserve Bank for them to solicit foreign central bank deposits. The only possible advantage he could

8/10/60

-12-

visualize (and he would minimize it) was that if American banks were more aggressive in seeking foreign central bank deposits, that might serve as a countercheck to the current outflow of gold from this country, which had now reached some magnitude. In summary, he would let sleeping dogs lie and do nothing.

Governor Robertson agreed as far as not making public use of the document was concerned. Any statement might be construed as reflecting a change in policy, and he hoped that the New York Bank would not call together any group of commercial bankers to explain its practices. However, he felt differently on the matter of informing the other Reserve Banks. Failure to keep them informed of the nature and mechanics of the New York Reserve Bank's foreign operations created a difficulty in the emergency planning program of the System since, should the New York Bank become inoperable through enemy attack, those operations would necessarily devolve upon some other Reserve Bank. Consequently, he proposed that copies of the statement be sent to each Reserve Bank President for the confidential use of the small group of officers at each Bank who would need to know how the foreign operations were carried on in order to be able to function if circumstances should require.

Governor Shepardson concurred in this view with respect to the Reserve Banks. So far as the commercial banks in New York City were concerned, it was his recollection that at the July 26 meeting President Hayes had suggested the possibility of introducing informally at a regular

8/10/60

-13-

meeting of the aforementioned commercial bank group the subject matter of the New York Bank's statement in order to clarify any possible misunderstanding regarding the procedures of the Reserve Bank.

In response to a question, Mr. Sammons described the group as one consisting of representatives of the large New York City banks most clearly identified with foreign operations. Any discussion with that group would, he suggested, immediately be somewhat beyond the range of informality, for the comments made would amount to advising a delegated group of financial experts in the field what the Federal Reserve was doing.

Governor Shepardson then said that although this might be a formal group, the distinction had been made by Mr. Hayes that the question would not be set up as a matter of which an issue was to be made. Instead, it appeared that Mr. Hayes felt there might be some lack of understanding among the commercial banks as to what the Reserve Bank was doing, and that his thought, which he had expressed rather persuasively, was to bring about a better understanding through explanation of the practices of the Reserve Bank.

Governor King, who was not present at the July 26 meeting with President Hayes, said that in the circumstances he did not feel too confident in speaking about the matter. However, based upon the information at his disposal, he was inclined to agree with Governor Mills that the New York Reserve Bank's statement not be made public. If it seemed desirable

8/10/60

-14-

to inform the other Federal Reserve Banks, he felt that perhaps discussion by Mr. Hayes with the other Presidents would be preferable to distribution of the document.

At this point Mr. Molony, Assistant to the Board, joined the meeting.

Governor Szymczak commented on the Board's experience in the past in dealing with the New York Reserve Bank regarding the maintenance of foreign accounts. With more particular reference to the specific question now before the Board, he noted that, as Mr. Hayes had said, the position of the New York Reserve Bank was "betwixt and between" since it maintains accounts for foreign central banks that also have accounts at commercial banks in New York City. However, the Reserve Bank had for a long time requested that transactions in Government securities be carried out through the Bank, or at least with its knowledge, so that the Bank would have an opportunity to advise the foreign central banks concerned whether those transactions were consistent with Federal Reserve policy at the particular time.

Governor Szymczak agreed with Governor Mills that any written statement, if distributed, would be construed by the New York commercial banks as a statement of current policy. However, he felt that the New York banks should be informed of the practices of the Reserve Bank, not by way of any written communication but informally, and with an indication by the Reserve Bank that what was being related was simply the current

8/10/60

-15-

practice which was subject to change at any time at the discretion of the Reserve Bank. He also felt that it would be helpful to the other Reserve Banks to be informed of the practices of the New York Bank through discussion, in the same manner that Mr. Hayes had presented the subject to the Board.

After additional discussion of the practice of the New York Bank in regard to requesting, from foreign central banks having accounts at the New York Bank, information concerning transactions in the New York market, Governor Balderston agreed that any dissemination of information should be accomplished in such manner as not to indicate a change in policy, especially at a time as critical as the present. However, if the matter were handled cautiously by the New York Bank, he felt that such a misinterpretation could be avoided. As to the other Federal Reserve Banks, it was his view that they should be informed in some manner.

In further discussion, comments were made on the desirability that the New York Reserve Bank be kept aware of foreign central bank transactions in the New York market, the extent of information on the New York Reserve Bank's foreign operations that should be available to appropriate officers of the other Reserve Banks for emergency planning purposes, and the manner in which such advice might best be transmitted.

General agreement then was expressed with the view that it would be appropriate to suggest that President Hayes, following his return from vacation, discuss the existing procedures of the New York Bank, as set forth

8/10/60

-16-

in the June 8 statement, with the other Presidents on some occasion when the Presidents were in Washington, and that copies of the document then be distributed to the Presidents for their own use and for the confidential use of appropriate officers at the respective Banks.

At the instance of Governor Szymczak, there ensued further discussion of the Board's views with regard to requesting foreign central banks to notify the Federal Reserve Bank of their transactions in the New York market. It was brought out that the procedure of making such a request had developed over a period of years, that the results apparently had been reasonably satisfactory, but that it was questionable whether all foreign central banks had complied with the request fully, and that the request was not enforceable. It was also suggested that foreign central banks must realize that any operations that would interfere with the execution of monetary and credit policy in the United States would be of interest to the Federal Reserve System, and that this provided a basis on which to make the request.

Governor Mills then expressed the view that the Board should not indicate to the New York Reserve Bank that it police the matter any differently than at the present time. The current practice had been followed over a period of years, it seemed to have worked reasonably well, and he did not see why it should be disturbed. If any New York commercial bank had questions regarding procedures, it would no doubt be given a sympathetic hearing by the Federal Reserve Bank, and he saw no good reason for Mr.

8/10/60

-17-

Hayes to appear before a commercial bank group and relate what the Federal Reserve Bank was doing.

Governor Balderston commented that even if any change in policy was desired, he did not think this would be the time to make such a change. He thought that what Mr. Hayes had laid out was rather reasonable, in that it seemed to represent an effort toward improving relations between the Reserve Bank and the commercial banks through the medium of better understanding. On the other hand, he was not sure that this was a time to do anything that might imply a modification of existing procedures.

It appeared to be the general view that it would be unfortunate to do anything that might suggest "greater policing" of the request that foreign central banks inform the Reserve Bank of their operations in the New York market, particularly since no authority to enforce the request existed. The suggestion was made that it would be desirable for President Hayes to have the sense of the Board's thinking with regard to this and other questions concerning the June 8 statement before any meeting that might be held with the Presidents of the other Federal Reserve Banks. Accordingly, it was understood that the views of the Board would be conveyed to Mr. Hayes when the suggestion regarding the possibility of a meeting with the other Presidents was transmitted to him.

Mr. Sammons then withdrew from the meeting.

Membership dues and contributions. There had been distributed under date of July 8, 1960, a memorandum from Mr. Fauver comparing the

8/10/60

-18-

amounts budgeted by the Federal Reserve Banks for membership dues and contributions to various organizations in 1960, as compared with 1957, when the subject previously was discussed with the Reserve Banks. A staff study of this kind was suggested by the Board's Budget Committee in connection with its review of the 1960 budgets, and the July 8 memorandum had been preceded by several other memoranda describing budgeted items at individual Reserve Banks.

The approach taken in the July 8 memorandum was to classify the payments made to various groups according to areas of Reserve Bank operations. Memberships were shown separately for various banker and bank-related groups such as the American Bankers Association, State bankers associations, and the American Institute of Banking. The remaining groups included those related to areas such as legal, economic, agriculture, public relations, management, personnel, library, health, purchasing, building operations, and dietetics. The memorandum showed that total amounts budgeted by the Reserve Banks for memberships and contributions for 1957 and 1960 were virtually unchanged. Breakdowns between types of membership involved showed that the American Institute of Banking received the largest amount in the 1960 budgets, with payments to State bankers associations ranking second, and those to the American Bankers Association ranking third. It was noted that the effect of increased payments to the American Bankers Association and to State bankers associations

8/10/60

-19-

obscured the fact that membership dues and contributions to all other types of organizations were reduced in the three-year period.

Mr. Fauver recalled that an active review of such expenditures in 1957 culminated in discussions with the Reserve Bank Presidents and Chairmen, following which a letter was sent by the Board to the Banks on February 6, 1958, (S-1647; F.R.L.S. #3187), which suggested that the Reserve Banks limit their memberships to those which could be justified either by the activities of the organization or by the benefits derived by the Reserve Bank, with the interpretation in each case to be left to the directors of the individual Banks. He noted that some progress had been made in certain areas of expenditure, but that, on the other hand, additional expenditures had been made by the various Banks.

Governor Mills inquired whether the Board would wish to delegate the problem to the Budget Committee, which could discuss general developments with each President on the basis of Mr. Fauver's memorandum and also take up any expenditures of the particular Bank that appeared to deserve comment.

Governor King then said that, although this procedure would be agreeable to him, he doubted whether substantial results could be achieved in that manner. In his own mind, he could not justify payment of any substantial dues to the American Bankers Association or to State bankers associations except, perhaps, token membership fees. Banker groups, he

8/10/60

-20-

felt, should understand that the Reserve Banks had no reason to join organizations on account of profit motives.

In further comments, Governor King emphasized the Board's responsibility for Reserve Bank expenditures and indicated that, if questioned, he would have difficulty in defending expenditures for memberships such as those to which he had referred. Accordingly, while he was reluctant to impinge upon the responsibilities of the Reserve Bank directors, in this matter his sense of responsibility to the System as a whole led him to feel that the directors should not be left in a position of exercising unfettered judgment. In summary, he was not happy that expenditures of this kind were being made, and he hoped the Board would meet the problem in a forthright manner. He was reluctant to counsel restriction of the area of discretion of a Reserve Bank, but in this instance he thought it was necessary.

Governor Balderston indicated that he shared many of these views, but that he knew the problem was not an easy one for the Reserve Bank Presidents, who were on the firing line as far as bank and public relations were concerned. On certain items he entertained grave doubts as to whether Reserve Bank expenditures could be justified, but on the other hand the holding of memberships sometimes was valuable from the standpoint of operating efficiency in making information or services available to research or management personnel. He recognized that probably the most difficult of all the expenditures to eliminate would be the payments to

8/10/60

-21-

the American Bankers Association and the State bankers associations. He would be willing to listen to whatever the Presidents might have to say on this matter, but at present he had a feeling that those payments might be eliminated as a matter of principle.

Governor Robertson then proposed that the suggestion to ask the Budget Committee to discuss this subject with the individual Presidents be supplemented by a procedure whereby the material prepared by the staff would be sent to all of the Presidents and a request made for discussion at the meeting of the Presidents' Conference on September 12-13, 1960. This suggestion contemplated that the whole problem be considered from a System standpoint, with a view to reaching a general position on the appropriateness of various types of expenditures. While he realized that the subject had been discussed before, he felt that this type of problem should be reviewed time and again with a view to achieving a better understanding of the principles involved and developing sound reasons in support of whatever policies might be regarded as appropriate.

During further discussion, Governor King made additional comments concerning the propriety of the payment of dues to the American Bankers Association and to State bankers associations, Governor Shepardson suggested exploration of an approach that might lead to greater uniformity concerning the basis on which dues are paid to such organizations, and Governor Szymczak commented concerning the problem of decentralization of authority within the Federal Reserve System in relation to decisions on discretionary expenditures.

8/10/60

-22-

The suggestions that had been made for further review of the question of membership dues and contributions were then adopted. These were (1) that the Board's Budget Committee discuss expenditures at the respective Reserve Banks with the Presidents individually, and (2) that the material compiled by the Board's staff be sent to the Reserve Bank Presidents with a request that the subject be placed on the agenda for discussion at the meeting of the Presidents' Conference on September 12, 1960, and the joint meeting of the Board and Presidents on the following day.

Messrs. Robinson, Adviser, and Dembitz, Associate Adviser, Division of Research and Statistics, entered the room during the foregoing discussion.

Classification of cities for reserve purposes. Pursuant to the understanding reached at the Board meeting on August 9, 1960, alternative possibilities for the classification of cities for reserve purposes were given further consideration. In this connection, there had been distributed prior to the meeting a memorandum dated August 10, 1960, showing the results, for purposes of designation of reserve cities, if the Board were to designate as a reserve city any city in which there was located:

- (1) A Federal Reserve Bank or branch (unless every bank in the city qualified for reduced reserves), or
- (2) A single bank having aggregate deposits of \$300 million and over, or interbank deposits of \$30 million and over, or
- (3) Two banks having aggregate deposits of \$400 million and over or interbank deposits of \$40 million and over.

8/10/60

-23-

Similarly, the results were shown if the Board should designate as a reserve city any city in which there was located:

- (1) A Federal Reserve Bank or branch (unless every bank in the city qualified for reduced reserves), or
- (2) A single bank having aggregate deposits of \$250 million and over, or interbank deposits of \$30 million and over, or
- (3) Two banks having aggregate deposits of \$350 million and over, or interbank deposits of \$40 million and over.

It was noted that on the basis of the first plan four cities would have their reserve city designation terminated and 16 cities would move into the reserve city category. On the basis of the second plan, three cities would have their reserve city designation terminated and 21 cities would move into the reserve city category. In a table included in the memorandum, changes in the number of banks and in amounts of deposits and reserves under the two plans had been compared on the assumption that the Board might wish to adopt the following formula under which certain banks in present or proposed reserve cities would be permitted to carry reduced reserves:

Banks with less than \$100 million of gross demand deposits and less than \$10 million of interbank deposits and meeting a test based on debits. (In preparing the table, the test used was annual debits of less than a total of \$500 million plus 20 times average demand deposits, other than interbank and United States Government).

At the request of Governor Balderston, Mr. Robinson discussed the characteristics of a city that might cause it to be regarded as a "financial center".

8/10/60

-24-

The discussion then reverted to the results, for purposes of classification of cities, shown in the staff memorandum of August 10, 1960, and Governors Mills, Shepardson, Szymczak, and Balderston indicated that they would be favorably inclined toward the use of a plan based on criteria such as included in the first set of alternatives. Governor King qualified his comments by indicating that his preference would be to eliminate the inclusion of interbank deposits as a criterion, although he added that he would be willing to consider the point further. In looking at the list of cities that would be brought into the reserve city classification, he had some difficulty in justifying the designation of some of them, and he assumed that careful consideration would be given to borderline cases before a final decision was made.

Governor Robertson stated that he could not reach a conclusion in the absence of additional information relating to the effect of such a proposal on the total volume of required reserves and the distribution thereof between reserve city banks on the one hand and country banks on the other. In this connection he expressed interest in having information relating to the number of banks in reserve cities that might be expected to be granted permission to maintain lower reserves under a formula such as suggested in the memorandum, and the approximate total volume of reserves of banks in that category.

8/10/60

-25-

At the conclusion of the discussion it was understood that data of the nature suggested by Governor Robertson would be furnished to the Board, after which the subject would be given further consideration.

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:

Appointment

Mary Hedda Bohlin Hillard as Statistical Assistant in the Division of Research and Statistics, with basic annual salary at the rate of \$4,840, effective the date of entrance upon duty.

Salary increases, effective August 21, 1960

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Office of the Secretary</u>			
Betty P. Long, Records Clerk		\$ 4,460	\$ 4,565
<u>Research and Statistics</u>			
Caroline H. Cagle, Economist		9,735	9,995
Levon H. Garabedian, General Assistant		5,160	5,325
Eva J. Mason, Statistical Clerk		3,970	4,075
M. Elva Morse, Statistical Assistant		5,170	5,335
Katharyne Reil, Economist		8,080	8,340
Daviette Stansbury, Research Assistant		5,335	5,520
<u>International Finance</u>			
Kay J. Auerbach, Research Assistant		5,355	5,520
Peggy Hastings Reaves, Clerk		4,040	4,145

8/10/60

-26-

Salary increases, effective August 21, 1960 (continued)

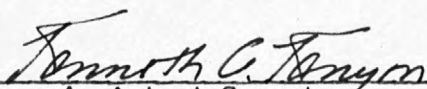
<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Examinations</u>			
Lyle B. St. John, Assistant Federal Reserve Examiner		\$ 7,260	\$ 7,425
Ann C. Tompros, Secretary		5,160	5,325
<u>Administrative Services</u>			
Leroy H. Cooley, Telegraph Operator		5,335	5,500

Transfer

Sally Hart, from the position of Stenographer in the Legal Division to that of Clerk-Stenographer in the Division of Personnel Administration, with no change in her basic annual salary at the rate of \$4,145, effective August 15, 1960.

Governor Shepardson today approved on behalf of the Board a memorandum dated August 4, 1960, from Ramsay Wood, Senior Economist in the Division of Research and Statistics, requesting permission to perform certain work for the Real Estate Research Program, University of California, Los Angeles, for a period of approximately one week in September 1960, while on annual leave, and with transportation costs and an honorarium to be provided by the University.

Governor Shepardson also approved today on behalf of the Board a memorandum dated August 10, 1960, from Mr. Fauver, Assistant to the Board, recommending, pursuant to the request of the Director of the Center for Latin American Monetary Studies, that arrangements be made for a visit by the trainees of CEMLA to the Board's offices during the week of September 12-16, 1960. It was understood that the Board would assume the cost of a luncheon on one day of their stay, translating facilities, and certain other minor items in connection with the program.


Assistant Secretary

Item No. 1
8/10/60

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

NOTICE OF APPLICATION FOR APPROVAL
OF ACQUISITION OF OWNERSHIP OF VOTING SHARES OF PROPOSED
BANK, AND ORDER FOR HEARING THEREON

Notice is hereby given that application has been made to the Board of Governors of the Federal Reserve System, pursuant to section 3(a) of the Bank Holding Company Act of 1956 [12 U.S.C. 1842], by Northwest Bancorporation, Minneapolis, Minnesota, for the prior approval of the Board of the acquisition by that corporation of direct or indirect ownership or control of 950 voting shares of the proposed Roseville Northwestern National Bank, St. Paul, Minnesota.

It appearing to the Board of Governors that it is appropriate in the public interest that a hearing be held with respect to this application:

IT IS HEREBY ORDERED, That, pursuant to section 7(a) of the Board's Regulation Y [12 C.F.R. Part 222.7(a)], promulgated under the Bank Holding Company Act of 1956, a public hearing with respect to this application be held, commencing October 17, 1960, at 10 a.m., at the offices of the Federal Reserve Bank of Minneapolis, 73 South Fifth Street, Minneapolis, Minnesota, before

a duly selected hearing officer, such hearing to be conducted in accordance with the Rules of Practice for Formal Hearings of the Board of Governors of the Federal Reserve System [12 C.F.R. Part 263]. The right is reserved to the Board or such hearing officer to designate any other place or date for such hearing or any part thereof which may be determined to be necessary or appropriate for the convenience of the parties.

IT IS FURTHER ORDERED, That the following matters will be the subject of consideration at said hearing, without prejudice to the designation of additional related matters and questions upon further examination:

1. The financial history and condition of the company and the bank concerned;
2. The prospects of said company and bank;
3. The character of their management;
4. The convenience, needs, and welfare of the communities and the area concerned;
5. Whether or not the effect of such acquisition would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

-3-

IT IS FURTHER ORDERED, That, any person desiring to give testimony in this proceeding should file with the Secretary, Board of Governors of the Federal Reserve System, Washington 25, D. C., on or before August 31, 1960, a written request containing a statement of the nature of the petitioner's interest in the proceeding, and a summary of the matters concerning which said petitioner wishes to give testimony. Such requests will be presented to the designated hearing officer for his determination. Persons submitting timely requests will be notified of the hearing officer's decision.

(signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

(SEAL)

Dated August 10, 1960.

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

Item No. 2
8/10/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 10, 1960.

Mr. R. F. Gooch,
Chairman of the Board,
Pacific State Bank,
885 South Hawthorne Boulevard,
Hawthorne, California.

Dear Mr. Gooch:

Your letter of July 25, 1960, submitted through the Federal Reserve Bank of San Francisco, requests that the Board permit the Corporation Commissioner of the State of California to review the current report of examination of your bank made by the Reserve Bank examiners. The contemplated review is in connection with an offer to exchange stock between the stockholders of Pacific State Bank, Hawthorne, and Hawthorne Financial Corporation, a holding company. The Corporation Commissioner would accept the report of examination in place of a formal audit of the bank which he would otherwise require, and you indicate that such an audit is in process, but could be terminated at a considerable saving to the bank. An analysis of the report of examination would be made by the accounting department of the Corporation Commissioner who would employ information derived from the report in considering the application for approval of the exchange of stock.

The Board has given consideration in the past to similar requests to permit various agencies to review reports of examination made by Federal Reserve Banks. It is in sympathy with your manifest desire to expedite the application above referred to and save the cost of an audit. As, however, the purpose of a bank examination is different from that of an audit and there is a great deal of confidential information in examination reports affecting not only the examined bank but also many borrowers of the bank, the Board has felt that it is in the best interest of all banks to prohibit the disclosure of confidential information by making the rule that examination reports may not be shown to persons other than those properly connected with the bank and to bank supervisory

Mr. R. F. Gooch

-2-

agencies who maintain strict confidentiality. By making no exceptions the confidentiality of examination reports is preserved, there is no discrimination through the making of special exceptions, and it is the Board's belief that such a policy protects and redounds to the benefit of banks and their customers.

The Federal Reserve Bank of San Francisco has been asked to forward this letter to you.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

CHECK CLEARING AND COLLECTIONItem No. 3
8/10/60**AMENDMENT TO REGULATION J****ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**

Effective August 10, 1960, Section 6 of Regulation J (12 CFR §210.6) is amended by inserting after the first sentence a new sentence reading as follows:

Such rules may, among other things, prescribe the types of checks and other items that will be received as cash items under this regulation, classify cash items, require separate sorts and cash letters, and provide different closing times for the receipt of different types or classes of cash items.



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

Item No. 4
8/10/60

3048

S-1758

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 10, 1960.

Dear Sir:

This refers to the action taken by the Conference of Presidents at its meeting on June 13-14, 1960, approving the recommendations made by the Subcommittee on Collections and the Subcommittee of Counsel on Collections in their joint report of May 25, 1960, with respect to the following:

- (1) Revision of certain uniform paragraphs and adoption of new uniform paragraphs in the operating circulars of the Federal Reserve Banks relating to the collection of noncash items, stemming from the review of a 1959 survey of the noncash operating practices and procedures of the Federal Reserve Banks and branches.
- (2) Revision of the uniform check routing symbol paragraph in the operating circulars relating to the collection of cash items to include appropriate reference to magnetic ink encoding.
- (3) That the Federal Reserve Banks continue to handle headache checks as cash items, but that Regulation J and the check collection operating circulars be revised to indicate that the Federal Reserve Banks have the authority to handle headache checks as cash items subject to prescribed conditions; also that a public announcement of the changes and their purpose be made.

The Board concurs in the proposed amendments to the uniform paragraphs of the circulars and operating letters of the Federal Reserve Banks relating to the collection of cash and noncash items in the form recommended in the report of the Subcommittee on Collections and the Subcommittee of Counsel on Collections as follows:

Collection of Noncash Items

Revised paragraph.

Regulation G of the Board of Governors of the Federal Reserve System (hereinafter referred to as Regulation G) and this circular prescribe the terms and conditions upon which we will receive and handle noncash items for collection. Section 4 of Regulation G provides that each Federal Reserve Bank may promulgate rules not inconsistent with the terms of the law or of Regulation G, governing the details of its noncash collection operations, and that such rules shall be binding upon any member or nonmember clearing bank which sends any noncash item to such Federal Reserve Bank for collection or to any other Federal Reserve Bank for the account of such Federal Reserve Bank for collection. This circular is issued pursuant to this provision of Regulation G.

New paragraph.

This Bank will receive, handle, and forward noncash items subject to the following instruction:

Do not hold after maturity or for convenience of payer.

Any contrary instruction in the collection letter or otherwise will be disregarded; and this Bank reserves the right, without prior notice to the sending bank, to recall any noncash item and to return it to the sending bank whenever, in the judgment of this Bank, such item is being held contrary to such instruction.

New paragraph.

Time items should not be forwarded to us or sent direct to another Federal Reserve Bank for our account more than 30 days prior to their maturity.

Revised paragraph.

Except as provided below, the Federal Reserve Banks make no charge for their services in collecting noncash items; however, it is recognized that any other bank acting as agent to collect any such item renders a service in presenting, collecting and remitting, for which a reasonable charge may be made if it cares to do so, and when such a charge is made, it will be deducted and credit given to the forwarding bank for the net proceeds.

New paragraph.

We do not undertake to present time items on the day of maturity unless such items are received by us sufficiently in advance of the day of maturity to permit presentment to the payer utilizing the means which we normally utilize for that purpose.

Revised paragraph.

Member and nonmember clearing banks are authorized to send, for our account, noncash items payable in other Federal Reserve districts direct to the Federal Reserve Banks and Branches of the districts in which the items are payable. Since direct sending of such items expedites handling by Federal Reserve offices and also is of advantage to member and nonmember clearing banks, banks are urged to send such items direct whenever feasible.

Revised paragraph.

(3) A service charge of 50¢ per item on all collection items returned unpaid and unprotested.

Collection of Cash Items

In lieu of paragraph now appearing which refers to the check routing symbol:

Check standardization.

To facilitate the sorting, routing and mechanized processing of checks and other cash items by all banks, and thereby promote earlier presentment and return of unpaid items, it is urged that:

- (1) The appropriate transit number-routing symbol in fractional form be clearly imprinted in the upper right-hand corner of all checks or other cash items drawn payable by, at, or through all par remitting banks. It is preferable that the symbol be printed in Gothic type, the face of which measures at least 8 points vertically or 1/9 of an inch from the top to the bottom of the individual characters.
- (2) In conformity with the American Bankers Association Magnetic Ink Character Recognition

Program, the routing symbol and the suffix of the transit number be encoded on all checks and other cash items in magnetic ink in E-13B type in the manner prescribed and at the location assigned by the A.B.A. within the 5/8 inch strip reserved for magnetic ink encoding along the bottom edge of such items.

- (3) Checks and other cash items be conformed to the standards prescribed by the A.B.A., including a minimum width of 2 3/4 inches, a maximum width of 3 2/3 inches, a minimum length of 6 inches, and a maximum length of 8 3/4 inches, and be restricted to a single thickness of card or paper.

The Board also concurs with the action taken by the Conference of Presidents with reference to Regulation J and has adopted an amendment, effective August 10, 1960, which provides for a new sentence to be inserted at the end of the first sentence of Section 6 reading as follows:

Such rules may, among other things, prescribe the types of checks and other items that will be received as cash items under this regulation, classify cash items, require separate sorts and cash letters, and provide different closing times for the receipt of different types or classes of cash items.

It is understood that this amendment to Regulation J is coupled with a new uniform paragraph in the cash collection circular or operating letters of the Banks, which will be inserted following the description of acceptable cash items and will read as follows:

The right is reserved to establish different closing times, and to require separate sorts and cash letters for items which we may be willing to accept as cash items and which are not suitable for processing on high-speed document handling equipment.

It will be appreciated if your Bank will arrange for the printing of sufficient copies of the amendment to Regulation J and for the early distribution of such amendment, together with the amendments to the circulars and operating letters of your Bank to all member banks in your District and also to all nonmember banks to which your Bank sends items for collection and payment. It is believed that the need for any public announcement by the Board with respect to the amendment to Regulation J will be adequately served by the statements that will be published in due course in the Federal Register and the Federal Reserve Bulletin.

Very truly yours,

Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

TO THE PRESIDENTS OF ALL
FEDERAL RESERVE BANKS
FRASER