FR 608
Rev. 10/59

Minutes for October 26, 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 1 Amendments to Regulation D, Reserves of Member Banks.

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 R
Gov. Balderston CCB
Gov. Shepardson ______
Gov. King ______

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, October 26, 1960. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Thomas, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Hackley, General Counsel

Amendments to Regulation D relating to vault cash and reserve requirements. Chairman Martin stated that yesterday's meeting of the Federal Open Market Committee was indicative of the problem that had been discussed in a preliminary fashion by the Board at its 9:00 a.m. session on October 25, regarding the need for additional bank reserves during the holiday season this fall and possible steps that might be taken to supply a substantial portion of those reserve needs through further action to release vault cash holdings of member banks and equalization of the reserve requirements of member banks in central reserve and reserve cities. Some of the Federal Reserve Bank Presidents had expressed themselves as feeling that action along these lines would be an appropriate means of meeting some of the need for reserves during the latter part of this year, rather than to meet such needs entirely through open market operations and use of the discount window. It had become obvious to him, the Chairman said, that it

1/ Attended afternoon session only.

was highly desirable to clear away the vault cash question by permitting all member banks to count all of their vault cash in computing reserve requirements at an early date. It was also highly desirable to equalize the position of the central reserve city banks in New York and Chicago with that of reserve city banks insofar as reserve requirements were concerned, even though there remained a year and nine months before the operation of Public Law 86-114 would bring about an elimination of this differential no later than July 28, 1962. Starting with the premise that the sooner these actions were taken the better, he had argued in his mind the question of the best time for making such action effective as well as the question of the best time for an announcement of such action. He noted that in the memorandum distributed by Mr. Thomas under date of October 24 the suggestion had been made that vault cash at central reserve city banks and at reserve city banks be released effective November 3, 1960, that vault cash at country banks be released effective November 24, along with an increase in reserve requirements of country banks from 11 per cent to 12-1/2 per cent against net demand deposits, also effective November 24, and that reserve requirements of central reserve city banks be reduced from 17-1/2 per cent to 16-1/2 per cent (the level now applicable to reserve city banks) effective December 1, 1960. Under that schedule the reserve and central reserve city banks would be getting the benefit early in November of any action taken. While an argument could be made both ways, on balance he had come to the conclusion that the best procedure would be to make an announcement before the Treasury announced its large-scale refunding of securities maturing November 15, 1960, but to defer the effective date of action by the Board until after the exchange of or payment for such securities had been completed. It could be anticipated that the Treasury would make an announcement on October 28 of the terms of the refunding of the 4-3/4 per cent certificates in the amount of approximately $7 billion due November 15, 1960, and of the 2-1/8 per cent Treasury bonds in the amount of approximately $3.8 billion also due November 15, 1960.

Chairman Martin went on to say that from the standpoint of open market operations a case could be made for having some action taken to release vault cash effective almost immediately. Arguments against such action included consideration of recent developments in connection with gold and the balance of payments. For a variety of reasons, his conclusion on balance was, as indicated earlier, that the best procedure would be to make an announcement promptly but to defer the effective date until some time after the Treasury financing operation had been completed.

The Chairman then referred to another possible action mentioned in the memorandum distributed by Mr. Thomas, that is, a change from two days to three days in the maximum deferment schedule for granting of credit for checks collected through the Federal Reserve System, such an increase in the deferment schedule to be effective on January 16, 1961, as a means of withdrawing a portion of the reserves that would be made available in one way or another during November and December to meet seasonal and holiday needs. Whatever the logic or lack of logic for a change in the time schedule, any such change would complicate an action relating to the release of vault cash or changes in reserve requirements. While it could be argued that an increase in the time schedule would never be practicable unless it were taken in conjunction with an action that would release reserves to member banks, he had come to the conclusion that it would not be desirable at this time to make a commitment as to just how reserves would be withdrawn from the market in January 1961. It was not possible at this time to know how much would have to be taken out of the market or whether the most suitable means in January would be to absorb funds through selling of Government securities or in some other manner, but an announcement of a change in the time schedule would to a degree tie the hands of the Board and of the Open Market Committee in dealing with whatever situation developed after the turn of the year. For this and other reasons, he felt that it would not be desirable to put into one announcement actions relating to the release of reserves in implementation of the 1959 legislation and also action relating to the time schedule, which involved a controversial question both within the Federal Reserve System and the commercial banking system.

Chairman Martin then referred to a discussion that he had had with the Under Secretary of the Treasury regarding the probable timing of an announcement of the November refunding. While an announcement of vault cash release and equalization of reserve requirements at central reserve and reserve city banks might have some psychological effect on the Treasury refunding, deferment of the effective date of such action until, say, November 24, which would be after the refunding had been completed and before the peak seasonal demand for reserves arrived, would not be a complicating factor from the standpoint of the Treasury financing. He then asked that the other members of the Board express their views as to what action might be taken and the timing of such action.

Governor Mills said that, as he had indicated at yesterday morning's meeting of the Board, if the Board reached a conclusion that action along the lines Chairman Martin had suggested was best, it would be agreeable to him. He did not think this would be the best action. Rather, he believed it would be advisable to make the announcement of the release of vault cash and the equalization of reserve requirements of central reserve and reserve city banks at once and to advance the effective date to early November instead of waiting until November 24. A substantial amount of reserves would be required during the first three weeks of November, he said, and if those reserves could be provided through a release of vault cash to some of the banks on, say, November 3, there would not be as great an impact as might otherwise be felt on short-term interest rates. He was inclined to discount any political implications of an early release of vault cash and he would prefer to make the announcement and provide some of the reserves against the pressing needs that would be arising within the next few weeks. If there should be criticism, in his opinion such criticism would be on the grounds that the action was more helpful to central reserve city banks than to others as far as changes in reserve requirements were concerned. As for the release of vault cash, such action would apply to all member banks and would be shared in by country as well as central reserve and reserve city banks, but his feeling was that there would be an advantage in making the announcement now, especially since some of the gain to country banks would be offset by the proposed increase in the level of their reserve requirements.

Governor Robertson said that he had come to a somewhat different conclusion as he had turned this over in his mind since yesterday morning's discussion. He felt that the reasons against making an announcement of any action before the general election in November were greater than if the announcement were delayed until after the election and nearer the time when the bulk of the reserves might be needed. He recognized that an announcement after election day ran the risk of a charge that the action was related to the results of the election, but in his opinion this involved less danger than if an announcement were made prior to the Treasury financing announcement. The wiser course, in his judgment, would be to delay an announcement until sometime in November and to make it in a way that would not interfere with the Treasury financing.

With respect to the deferment of credit for cash items collected through the Federal Reserve Banks, Governor Robertson stated that he was convinced an increase in the time schedule, which would absorb reserves, could not be brought about except as a part of a package which included some compensating action that would ease reserve requirements for banks. The proposed action for permitting the counting of vault cash and reducing reserve requirements of central reserve city banks would give a greater amount of benefit to large banks than to smaller banks; although the smaller banks would be provided with a substantial amount of reserves, some of those would be taken back by the increase in requirements against their net demand deposits so as to reduce the differential between country banks and reserve city banks. The tone of a statement covering the action proposed would in his opinion show that the Board was putting a massive amount of reserves into the market to meet seasonal needs during November and December, and if the announcement included a statement that a substantial portion of these reserves was to be absorbed in January by a lengthening of the deferment schedule, that would simply help to confirm that the action in releasing reserves was for the purpose of meeting some of the seasonal needs.

Governor Shepardson said that in general he was in favor of the proposed actions to release vault cash, to reduce reserve requirements of central reserve city banks to the level of those at reserve city banks, and to increase reserve requirements for country banks so as to reduce the advantage which those banks would experience through the combination of their lower reserve requirements and the gain they would have from being able to count all of their vault cash. He recalled that a year ago he had favored action to help meet the seasonal needs through a partial release of vault cash rather than to have to meet the year-end demands entirely through the open market and the discount window, and he had searched for further steps that might be taken this year to meet some of the immediate seasonal needs in November and December by a means other than through the open market. It was obvious that some of the reserves that would have to be put out between now and the year-end would have to be absorbed shortly after January 1, and he had hoped some of that absorption could be accomplished without the necessity of having to sell large amounts from the System's portfolio in January. He recognized that while there would be some need for additional reserves in the first part of November, there was reason to make the effective date of the proposed action toward the end of the month.

With respect to the deferment schedule, Governor Shepardson said that he had been concerned about this problem from the time it had first come up in 1958. On principle, the System would not be accomplishing anything by a change in the schedule from two to three days. If it was wrong to extend as much credit as was now being extended through float because the maximum deferment schedule was too short, it would still be wrong on principle to be extending a substantial amount of credit on float even if the maximum time were increased to three days. A change to the three-day schedule would be only a change in degree. Another consideration was that, with the tendency toward acceleration of the time taken for clearing of checks, further substantial gains toward expediting check collections could be expected over the next several years. This would be of benefit to the entire community. Thus, unless a change in the time schedule could entirely remove an objection to the principle of the Federal Reserve carrying float, he had grave doubts as to whether any change in the existing deferment schedule was desirable in any event. This meant that the only reason for taking action now to increase the deferment schedule would be for whatever benefit such action might provide in absorbing redundant reserves after the turn of the year without having to sell securities in the open market. Because of the uncertainties of what might be needed in January and of how those needs might best be met, he had come to the view that actions at this time should be limited to releasing vault cash and adjusting reserve requirements at central reserve city banks and at country banks along the lines indicated on page 7 of the memorandum distributed by Mr. Thomas. In any event, he would leave the question of a change in the deferment schedule for consideration at a later time.

Governor Shepardson then referred to the type of announcement that might be made of action that might be taken by the Board. He felt that the tone of such a statement was important, that regardless of whether reserve requirements were reduced or reserves were made available through permitting banks to count vault cash the same purpose was served, and that it would be helpful if the statement could make it clear that the different classes of banks were being benefited on an equitable basis in the overall picture regardless of whether the benefit came about through a change in their reserve requirements or through their being permitted to count vault cash.

Governor King said that to delay an announcement until mid-November or later and to emphasize that the action was then being taken to meet seasonal needs did not impress him as a convincing argument against making an announcement now of actions that would be directed toward furnishing the reserves that would be needed in November and December. He felt it would be preferable to make an announcement of the action at once. On one aspect of the changes that had been suggested earlier in the discussion, he would prefer that the reduction in reserve requirements of central reserve city banks to become effective on December 1 might better be 1/2 percentage point rather than a full percentage point, leaving some further action to be taken by the Board in equalizing reserve requirements of central reserve and reserve city banks between now and July 1962. This was his preference, he said, but he was willing to go along with changes such as had been suggested in the memorandum from Mr. Thomas and discussed by the Board during this meeting and the one held on October 25.

Governor Balderston said that he would make an immediate announcement of the contemplated action, to become effective some time in the latter half of November. Looking at the specific proposals, he would prefer to release all vault cash and he would also wish to equalize the position of central reserve and reserve city banks at the present time. With specific respect to country banks, Governor Balderston said he favored increasing their requirements from 11 per cent to 12 per cent at the time they were permitted to count all of their vault cash holdings, rather than to increase them to 12-1/2 per cent. The amount of reserves involved was less than $200 million and the number of banks that would be affected adversely because of an increase in reserve requirements from 11 to 12 per cent was only 68 as compared with approximately 300 country banks that would be adversely affected by an increase in the percentage to 12-1/2 per cent. With respect to the deferment schedule, Governor Balderston said that he had been of two views on this question from the beginning. In a classroom atmosphere, he would be for taking action to increase the deferment schedule, but from the practical aspects of the matter he did not believe that the Board at this time should indicate that it was going to increase the time schedule in the month of January which of necessity was looking to a time when the Board could not be certain as to what would then be needed.

In response to a question from Chairman Martin, Governor Mills said that he would take no action on the deferment schedule at this time. However, on the technical side, the Board should remember that the time schedule for granting of credit by the Federal Reserve Banks was something that came into existence in the earliest days of the Federal Reserve System when the Reserve Banks were linked to commercial banks more than at the present time. Actually, commercial banks make a practice of granting immediate credit while the System today defers credit for checks collected through the Reserve Banks as much as two days. The Reserve Banks had not attempted to follow a practice of granting free reserves to member banks but rather had followed for many years a practice of holding back credit on checks processed through the Reserve Banks. He did not believe that the commercial banks would understand the reasoning back of a move to increase the time schedule as a means of reducing float in connection with the administration of monetary policy, even though the existence of float provided some reserves to member banks.

Governor Robertson said that he had assumed that the total package on page 7 of the October 24 memorandum distributed by Mr. Thomas was based on what would be equitable for all banks. He assumed that if this provided equitable treatment for all groups of banks - central reserve city, reserve city, and country - the elimination of the change in the deferment schedule would mean that the package did not provide equitable treatment for the various groups of banks.

Mr. Thomas said that the table to which Governor Robertson referred listed possible actions that might be taken. Actually, country banks would benefit proportionately more than either reserve or central reserve city banks through the release of vault cash, and the inclusion of an increase in the deferment schedule would simply mean that reserve and central reserve city banks would get less benefit from the various actions proposed than otherwise. He did not think it would be correct to state that country banks had not benefited substantially from the actions already taken or under the actions listed in the memorandum refered to, since the whole operation of authorizing the counting of vault cash had been designed to benefit country banks relative to banks in central reserve and reserve cities. With respect to the proposal that reserve requirements of country banks be increased from 11 to 12 per cent rather than from 11 to 12-1/2 per cent on their net demand deposits, Mr. Thomas stated that this would leave the country banks in a relatively more favorable position than reserve or central reserve city banks as compared with the position they were in prior to any action taken to implement Public Law 86-114. In his opinion, a margin between country banks at 12 per cent and reserve and central reserve city banks at 16-1/2 per cent of net demand deposits would be too large in favor of the country banks.

Mr. Hackley expressed the view that any change in the deferment schedule in connection with the other actions proposed should be considered in terms of whether this was an appropriate monetary instrument. While it was true that reserves provided through float affected reserves available for monetary purposes, and while it was true that such reserves had increased more than had been anticipated when the time schedule maximum was reduced from three days to two days in 1951, it should be borne in mind that the whole amount of float was only an incident to the check collection system. Float had never been regarded as an instrument for changing the volume of bank reserves, although of necessity it was an element to be taken into account in calculating the needs of banks for reserves from time to time. If the Board were now to take an action that implied that the volume of float was to be changed through a change in the deferment schedule for the purpose of accomplishing monetary objectives, such action would run counter to the arguments advanced by the Board in response to criticism by Professor Walter Spahr and others that the Board had violated the law with regard to creating credit in connection with the check collection schedule. Mr. Hackley felt that, while there was a perfectly good defense against the charges of Professor Spahr when one considered the practical operations of the Federal Reserve check collection system, it would be desirable for any change in the time schedule to be made separately and apart from a change reflecting the use of monetary instruments. He pointed out that, although commercial banks failed to receive immediate credit for all checks collected through the Federal Reserve, they were granted credit at the time the checks were handled and only the final passing of credit for a portion of such items was deferred until the checks concerned could on the average be collected. In sum, Mr. Hackley felt that it would be undesirable for the Board to adopt the use of the time schedule as another instrument of credit policy.

Mr. Thomas noted that in January 1961 as in any other January there would be a problem of absorbing reserves as funds returned from the banks and from the public following the holiday season. The excess funds would be dealt with in one way or another, and the inclusion in the memorandum that he had distributed of a possible change in the time schedule was only for the purpose of indicating that a lengthening of that schedule could be a means of absorbing perhaps a half billion dollars of such reserves. A change in the deferment schedule that involved an absorption of such a volume of reserves must be carefully considered from the standpoint of timing because of the effect that it would have on the execution of monetary policy. Therefore, such a change should not be made without regard to when a reduction in float would become effective. However, if such a change were to be made, it could be timed in January of any year since it was always necessary to absorb a substantial volume of excess reserves at that season of the year.

Chairman Martin said that he would be entirely willing to accept the 12 per cent figure suggested by Governor Balderston for reserve requirements of country member banks although he was inclined to feel that this was a relatively unimportant matter. As to the suggestion that requirements for central reserve city banks be reduced by one-half rather than a full percentage point, because of various factors including the heavy outflow of gold these banks were in need of the reserves that would be provided by a reduction from 17-1/2 to 16-1/2 per cent in their requirements. The Chairman then turned to the question of timing for making reserves available.

Mr. Thomas said that he shared Governor Mills' feeling that it would be helpful if a portion of the reserves could be made available starting early in November. Such action would reduce the amount of open market operations that would be necessary. If, however, it did not seem wise to make the reserves available early in November, provision of the added funds as of November 24 at the beginning of the Thanksgiving and Christmas holiday season and at central reserve city banks on December 1 would meet much of the seasonal needs.

Chairman Martin said that this was a question of dealing with alternatives. In his view the danger of misunderstanding of the Board's action would be greater if the action were made effective early in November than if the reserves became available in the latter half of the month. Nobody would be able to suggest that on the eve of an election campaign reserves had been put into the market to assist in a Treasury financing operation. It was true that the technical situation would call for some increase in open market operations early in November but, as he had indicated before, his conclusion was that the Board would be in a slightly stronger position to make an announcement now but to delay the effective date until after the Treasury financing was out of the way. The Chairman then polled the members of the Board as to their views on the actions to be taken and the effective date or dates of such actions as well as the timing of the announcement.

Governor Robertson stated that he would dissent from the entire program for the reasons that he had indicated, and Governor Mills stated that he would approve the proposed actions but would prefer that at least part of the vault cash be released early in November rather than late in the month. There was agreement on the part of all members of the Board who were present and who were inclined to favor the action that reserve requirements of country banks against their net demand deposits should be increased from 11 to 12 per cent rather than from 11 to 12-1/2 per cent.

Chairman Martin then suggested that inasmuch as Governor Szymczak would not return to his office until noon today, the Board meet again at 2:30 p.m. for the purpose of taking action on the proposals discussed in this session.

Report on competitive factors (Hyattsville and Gaithersburg, Maryland). There had been distributed under date of October 24, 1960, a draft of report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of Suburban Trust Company, Hyattsville, Maryland, with The Maryland State Bank of Montgomery County, Gaithersburg, Maryland.

Governor Mills stated that he had a number of suggestions for revision of the wording of both the body of the report and of the conclusion so as to delete certain words such as "monopoly" and "alteration" of the area with offices of the bank concerned.

Governor Robertson stated that he felt the changes suggested by Governor Mills would be desirable, and he also suggested a substitution in the conclusion of the report to bring out more clearly the effect that the merger would have on the competitive situation in the area concerned.

Thereupon, unanimous approval was given to the report with the understanding that the changes suggested by Governors Mills and Robertson would be incorporated prior to its transmission to the Federal Deposit Insurance Corporation. The conclusion of the report in the form in which it was sent later in the day read as follows:

> The two banks involved in this application do not appear to be competitive with each other to a significant degree and, hence, there would be little, if any, lessening of competition in this respect. Suburban Trust could provide more effective competition in the Gaithersburg-Germantown area for Farmers & Merchants Bank, Rockville, when Farmers & Merchants branch is established in that area than can Maryland State. The move into northern Montgomery County by Suburban Trust represents the continuation of its area coverage with branches. In Montgomery County and the adjoining county of Prince Georges the proposed transaction amounts to further expansion of the largest and most extensively branched bank in either of said counties and would appear to be in furtherance of a trend toward dominance in the two-county area.

The meeting then recessed and reconvened at 2:30 p.m. with all members of the Board in attendance and with Messrs. Sherman, Thomas, Molony, Fauver, and Hackley present.

Amendments to Regulation D (Items 1 and 2). Chairman Martin stated that since the morning session he had talked with Governor Szymczak to give him the background of the Board's discussions of the proposed release of vault cash and changes in reserve requirements of member banks. He then asked that Governor Szymczak express his views on the proposals.

Governor Szymczak said that, after studying the matter, he felt that if the Board was going to increase reserve requirements of country member banks as a means of absorbing some of the funds that would be provided through a complete release of vault cash, a preferable procedure to that suggested in the memorandum distributed by Mr. Thomas would be to make the increase from 11 to 12 per cent effective in January of 1961 at the time when it would be necessary in any event to absorb some of the excess reserves rather than to make it effective in November. He believed this would be better timing from the standpoint of the effect upon open market operations. However, he did not feel strongly about this point.

With respect to the deferment schedule, Governor Szymczak said that before any action was taken by the Board to lengthen the time schedule, he believed the whole matter should be discussed with the Federal Advisory Council. This would be in keeping with the practice that had been followed in the past. A change in the time schedule was of such special importance in terms of its relation to member bank operations that a discussion with this group should take place before any action was announced.

With respect to the timing of an announcement on a release of vault cash and changes in reserve requirements, Governor Szymczak said that he had some hesitation about making an immediate announcement because of the way in which it might be interpreted. On the other hand, some advance notice of the actions proposed for the latter part of November and December 1 would be desirable. On balance, he felt that the Board had no option but to make its announcement prior to announcement by the Treasury of its financing, if the reserves were to be made available in the second half of November.

Mr. Thomas then commented, in response to a question from Chairman Martin, on the level of reserve requirements proposed for country member banks and on whether Governor Szymczak's suggestion for delaying an increase in requirements for those banks would greatly facilitate open market operations. He said that the proposed 12 per cent figure would still leave country member banks in a relatively more favorable position than in the past, considering the benefit they would receive from a release of all vault cash to be counted in meeting reserve requirements. From the standpoint of providing or absorbing reserves, however, the amount involved in this particular part of the proposal was not sufficient to make a significant difference in operations for the Open Market Account. Thus, although a delay in the increase in requirements for country banks until January would fit in with the absorption of reserves that would be needed at that time, it would seem to him preferable to make the increase effective at the same time the banks were being given the benefit of permission to count all vault cash toward meeting their reserve requirements. The country member banks would not be in great need of the full $900 million of reserves that would be released by permitting them to count vault cash in the latter part of November, and it would be easier to offset some of that amount by a simultaneous increase in their reserve requirements rather than by absorbing a portion of the unneeded reserves through open market operations.

Governor King said that he felt it preferable to increase reserve requirements for country banks simultaneously with giving them permission to count vault cash. The proposed increase in reserve requirements was modest, very few banks would find that their reserve requirements were greater than before the change, and he felt there would be no difficulty in explaining the increase if any question were to arise.

Governor Szymczak then said that he was in favor of action that would authorize the counting of all vault cash and the changes in reserve requirements that had been suggested but that he would be opposed to any action at this time changing the deferment schedule.

The discussion then turned to the form of announcement that might be issued this afternoon and to a draft of such announcement that had been distributed prior to this meeting by Mr. Molony.

Following a discussion, the Board acted to (a) authorize the counting of all vault cash in partial compliance with member bank reserve requirements, effective November 24, 1960, (b) increase reserve requirements against net demand deposits of banks not carrying the requirements of reserve or central reserve city banks from 11 per cent to 12 per cent of their net demand deposits, effective November 24, 1960, and (c) to reduce from 17-1/2 per cent to 16-1/2 per cent the reserves required against net demand deposits of banks located in a central reserve city and subject to requirements for that group of banks, effective December 1, 1960.

On this action Governor Robertson voted "no" for the reasons he had stated.

The foregoing action was taken with the understanding that a statement would be released to the press at 4:00 p.m. this afternoon, that appropriate advice would be sent by telegram to all Federal Reserve Banks and branches, and that arrangements would be made for publication of a notice in the Federal Register. A copy of the amended Supplement to Regulation D, Reserves of Member Banks, is attached to these minutes as Item No. 1, and a copy of the statement for the press issued at 4:00 p.m. E.D.T., October 26, 1960, is attached as Item No. 2.

The meeting then adjourned.

Secretary's Notes: Governor Shepardson today approved on behalf of the Board a letter to the Interstate Commerce Commission requesting the detail to the Board of Mr. Edward H. McMahan for a three-month period beginning November 18, 1960, to serve as Hearing Examiner in connection with a hearing to be conducted under section 4(c)(6) of the Bank Holding Company Act, the Commission to be reimbursed for Mr. McMahan's salary only for the time in which he is actually engaged in the conduct of the hearing.

Governor Shepardson also approved on behalf of the Board a telegram to the Federal Reserve Bank of Boston (attached Item No. 3) approving the designation of Ronald C. Currie as special assistant examiner.

Pursuant to the recommendation in a memorandum dated October 25, 1960, from Mr. Fauver, Assistant to the Board, Governor Shepardson today approved on behalf of the Board a visit to the Board's offices on December 6, 1960, by the Executive Committees of the National and State Bank Divisions of the American Bankers Association, with the understanding that the program would include a luncheon in the staff dining room.

Secretary

Item No. 1
10/26/60

SUPPLEMENT TO REGULATION D

Section 204.5—Supplement

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective as to all member banks at the opening of business on November 24, 1960, except as otherwise indicated.

(a) Reserve percentages.—Pursuant to the provisions of section 19 of the Federal Reserve Act and § 204.2 (a), but subject to paragraph (b) of this section, the Board of Governors of the Federal Reserve System hereby prescribes the following reserve balances which each member bank of the Federal Reserve System is required to maintain on deposit with the Federal Reserve Bank of its district:

(1) If not in a reserve or central reserve city—
- (i) 5 per cent of its time deposits, plus
- (ii) 12 per cent of its net demand deposits.

(2) If in a reserve city (except as to any bank located in such a city which is permitted by the Board of Governors of the Federal Reserve System, pursuant to § 204.2 (a) (2), to maintain the reserves specified in subparagraph (1) of this paragraph)—
- (i) 5 per cent of its time deposits, plus
- (ii) 16½ per cent of its net demand deposits.

(3) If in a central reserve city (except as to any bank located in such a city which is permitted by the Board of Governors of the Federal Reserve System, pursuant to § 204.2 (a) (2), to maintain the reserves specified in subparagraph (1) or (2) of this paragraph)—
- (i) 5 per cent of its time deposits, plus
- (ii) 17½ per cent of its net demand deposits until the opening of business on December 1, 1960, and 16½ per cent of its net demand deposits thereafter.

(b) Counting of currency and coin.—The amount of a member bank's currency and coin shall be counted in partial compliance with the reserve requirements of paragraph (a) of this section.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 2
10/26/60

Statement for the Press

October 26, 1960.

For release at 4:00 p.m. E.D.T.
October 26, 1960

The Board of Governors of the Federal Reserve System today amended its Regulation D, relating to bank reserves and reserve requirements, in three respects. The amendments will become effective November 24 and December 1, 1960.

The changes, made in further implementation of a 1959 Act of Congress relating to vault cash and reserve requirements, will make available to the System's 6,200 member banks about $1,300 million of additional reserves as the economy enters, between Thanksgiving and Christmas, the peak season of rising cash and credit needs. The changes are as follows:

1. Effective November 24, all of the System's 6,200 member banks will be authorized to count all their vault cash (i.e., all the coin and currency they hold) in meeting their reserve requirements.

2. Also effective November 24, the reserve requirement of "country banks" (i.e., banks not classified as central reserve city or reserve city banks) against their net demand deposits, now 11 per cent, will become 12 per cent.

3. Effective December 1, the reserve requirements of central reserve city banks against their net demand deposits, now 17 1/2 per cent, will become 16 1/2 per cent. This change is in accordance with a provision of the 1959 Act that would have the effect of eliminating the differential between the requirements of central reserve city banks and reserve city banks by July 28, 1962.

These actions are the third in a series taken over the course of a year to implement the legislation cited. The previous actions, both authorizing member banks to count specified portions of vault cash in meeting reserve requirements, were made effective December 1 and 3, 1959, and August 25 and September 1, 1960.

The actions announced today will release, for loans, investments, and for provision of seasonal cash needs, a net amount of approximately $1,050 million of reserves on November 24 and $250 million on December 1. Of the $1,300 million total, $400 million will be released at central reserve city banks, $380 million at reserve city banks, and $520 million at country banks. The net amount of additional reserves to be made available to country banks reflects the result of a release of $900 million of vault cash, partly offset by an increase of $380 million in their reserve requirements.

All member banks are required to set aside a portion of their deposits to meet basic reserve requirements established by the System. Before the 1959 Act of Congress, member banks had to meet these requirements with balances kept at their respective Federal Reserve Banks. They were not permitted to count, as reserves, cash in their own vaults. However, the amount of cash that banks have found it necessary to hold, in relation to their deposits, varied bank by bank depending upon the daily needs of their customers. The legislation adopted by Congress was designed to smooth out the inequities resulting from these operating differences. When the changes announced today become effective, all member banks will be permitted to count all cash on hand, as well as balances kept at their Federal Reserve Bank, in meeting their basic reserve requirements.

Before the 1959 Act, country banks, on the average, were in the position of having 14.5 per cent of their net demand deposits immobilized in the form of reserve balances and needed vault cash. In consequence of the legislation and the series of actions over the last year in relation to it, this amount will be changed to a uniform 12 per cent, after the effective date of today's action.

The corresponding percentages for reserve city banks will be reduced from an average of 18.2 per cent to a uniform figure of 16.5 per cent. For central reserve city banks, the comparable figures are 18.7 and 16.5 per cent.

Item No. 3
10/26/60

TELEGRAM
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

October 26, 1960

GROOT - BOSTON

Reurtel October 26, 1960, Board approves designation of Ronald C. Currie as special assistant examiner for Federal Reserve Bank of Boston for purpose of participating in examinations of Depositors Trust Company, Augusta, Maine; The Merrill Trust Company, Bangor, Maine; The Connecticut Bank and Trust Company, Hartford, Connecticut; and Rhode Island Hospital Trust Company, Providence, Rhode Island.

(Signed) Elizabeth L. Carmichael
CARMICHAEL