

Minutes for November 7, 1960

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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

Chm. Martin	<u>(M)</u>
Gov. Szymczak	<u>MS</u>
Gov. Mills	<u>[Signature]</u>
Gov. Robertson	<u>R</u>
Gov. Balderston	<u>CCB</u>
Gov. Shepardson	<u>[Signature]</u>
Gov. King	<u>[Signature]</u>

Minutes of the Board of Governors of the Federal Reserve System
on Monday, November 7, 1960. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Adviser to the Board
Mr. Young, Adviser to the Board
Mr. Shay, Legislative Counsel
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Noyes, Director, Division of Research
and Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Furth, Associate Adviser, Division of
International Finance

Transactions in gold (Item No. 1). On October 31, 1960, the Board gave consideration to a memorandum from Mr. Marget, Director of the Division of International Finance, concerning a letter he had received under date of October 26, 1960, in which Vice President Sanford of the Federal Reserve Bank of New York reported inquiries from commercial banks as to whether the joint statement of the Secretary of the Treasury and the Board of Governors dated July 18, 1947, on international traffic in gold was still in effect. It was indicated that Mr. Marget and Mr. Furth agreed generally with the type of response proposed to be made to such inquiries, which would be to the effect that under present circumstances

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banks should refrain from facilitating or financing transactions in gold at premium prices, and Mr. Marget was authorized to discuss the matter with the Treasury.

In a memorandum dated November 4, 1960, which had been distributed to the Board, Mr. Marget reported that the Treasury had taken the position that inquiries might be answered along the lines that "the United States Treasury looks with disfavor on any activities that would encourage or facilitate the buying and selling of gold outside the United States by United States citizens, residents, or enterprises. This includes the extension of bank facilities or funds for such transactions. The Treasury believes that such activities are not in the national interest since they facilitate speculation against the gold value of the dollar." The Treasury had suggested that this position be transmitted to the Federal Reserve Banks as informally as possible. Accordingly, Mr. Marget recommended that he be authorized to send to Mr. Sanford a letter stating the Treasury position, and that copies of the letter be sent to the other Reserve Banks.

In commenting on the matter, Mr. Furth reported that shortly before this meeting the Treasury had agreed to deletion of the words "since they facilitate speculation against the gold value of the dollar" from the final sentence of the statement setting forth the Treasury's position. He indicated that this deletion was favored by the Board's staff, adding that after the deletion of the words in question the statement

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would not refer specifically to transactions in gold at premium prices or to the financing of such transactions by banks. Instead, the statement would now indicate simply that the Treasury was of the opinion that the buying and selling of gold outside the United States, although permitted by Treasury regulations, was not in the national interest and should not be encouraged or facilitated.

Mr. Furth also stated that the Treasury was giving consideration to amending the gold regulations so as to place the buying and selling of gold outside the United States under license. However, the Board's staff was of the opinion that such an amendment would not be advisable because it would not be enforceable and because any change in the gold regulations at this particular time might have adverse psychological consequences. The United States Executive Director of the International Monetary Fund was reported to share the views of the Board's staff.

After further comments by Mr. Furth, a suggestion was made for a change in the proposed letter from Mr. Marget to Mr. Sanford which would make it clear that the suggested reply by Reserve Banks to inquiries from commercial banks reflected the view of Treasury officials. In response to a question as to the manner in which it was contemplated that replies to such inquiries would be made, Mr. Furth indicated that although the Reserve Banks might choose to relate the Treasury position to inquiring banks informally, no objection would be seen to furnishing the text of the Treasury position in writing. In fact, a reply by letter would have

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the advantage of avoiding any possible misunderstanding. In any event, Mr. Furth noted, the substance of the Treasury position probably would appear in the press within a short time after the Reserve Banks replied to the inquiries already received or other such inquiries, no matter whether replies were made orally or in writing.

The Board then authorized the sending of a letter to Vice President Sanford, over the signature of Mr. Marget, in the form attached as Item No. 1, with the understanding that copies of the letter would be sent to all Federal Reserve Banks.

Messrs. Thomas, Young, Shay, Molony, Noyes, and Furth then withdrew.

Regulations relating to branches of Federal Reserve Banks. As the result of a question raised at a meeting of the Board in December 1959, the suggestion was made that the Board's regulations relating to branches of Federal Reserve Banks might be amended to provide that the Board shall not appoint as a branch director any person who, at the time he assumes such office, is a director of a bank. The language of the regulations pertinent to this matter provided that "the directors appointed by the Board of Governors shall be persons who are actively engaged in commerce, agriculture, some other industrial pursuit, or the practice of a profession, who are not primarily engaged in banking and preferably are not directors of banks, although they may be stockholders."

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A memorandum from Messrs. Sherman, Secretary of the Board, and Hackley, General Counsel, dated November 4, 1960, which had been distributed to the members of the Board, pointed out that this matter had been considered by the Board from time to time in past years and involved entirely a question of policy. It was further pointed out that in practice the Board had not for many years appointed as branch directors persons who were directors of commercial banks. However, the Board occasionally had permitted a branch director to complete his term even though he had accepted a commercial bank directorship while serving as a branch director. The memorandum suggested that the purpose of giving notice that the Board would not appoint persons who were commercial bank directors when they assumed their duties as branch directors could be accomplished by amending section 3(b) of the branch regulations so as to provide that no person would be appointed by the Board of Governors as a branch director if he was primarily engaged in banking or, if such person was a director of any bank, unless he agreed to resign as such a director before taking office as a Federal Reserve Bank branch director. To this there might also be added that "any director appointed by the Board of Governors who, during his term of office, becomes a director of any bank shall promptly resign as a director of the Federal Reserve Bank branch unless the Board grants permission for him to serve as such until the expiration of his term."

The memorandum noted that even if the branch regulations were thus amended there would still be no prohibition against a Board-appointed

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branch director owning stock in a bank. Although not legally necessary, the branch regulations could be changed, if the Board so desired, to place Board-appointed branch directors on the same qualification basis as Class C directors, who are prohibited by law from being stockholders of banks.

In response to a question raised by Governor Robertson regarding the reasons for distinguishing between Board-appointed branch directors and Class C directors in respect to the holding of bank stock by such persons, reference was made to the fact that branch directors do not participate in the formulation of Federal Reserve policy and to the additional complication that would be involved in obtaining persons to serve as branch directors if they were required to dispose of holdings of bank stock.

Governor Mills commented to the effect that the question was one of choosing between the rigid rules of qualification and rules that would permit the Board of Governors more flexibility in its general approach. As he recalled, no serious embarrassment had been involved in dealing on a case-by-case basis with questions that had arisen when branch directors accepted directorships of commercial banks.

There followed discussion of cases that had arisen over the years with respect to the appointment of branch directors and to their continuing to serve as such if they became directors of commercial banks. It was pointed out that in the latter respect amendment of the branch regulations

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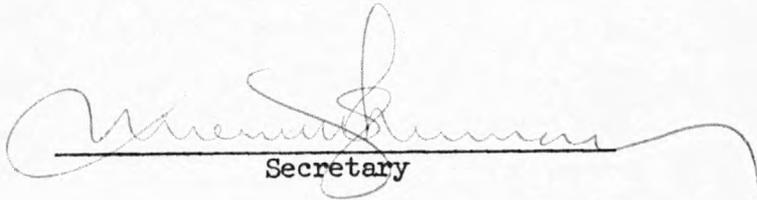
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in the manner suggested in the memorandum from Messrs. Sherman and Hackley was intended to give the Board some leeway to permit a branch director to finish his term of office. The suggestion was made on the other hand that the language of such a regulation might be read to imply that the Board was going to follow a general practice of permitting a branch director to complete his term of office as such if he became a director of a commercial bank and that deletion of the final clause of the proposed amendment nevertheless would appear to allow the Board to deal with such questions on a case-by-case basis.

After further discussion, Chairman Martin suggested that, in all the circumstances, it might be preferable to leave the pertinent provisions of the branch regulations in their present form, and agreement was expressed with this suggestion.

The meeting then adjourned.

Governor Shepardson today approved on behalf of the Board a memorandum dated November 7, 1960, from Mr. Kelleher, Director, Division of Administrative Services, recommending that the Board purchase and install five seat belts for each of its cars and station wagons.


Secretary

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

Item No. 1
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 7, 1960.



Mr. H. L. Sanford,
Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Horace:

In your letter of October 26, 1960, you reported that a number of banks had inquired about the attitude currently taken by the United States monetary authorities regarding the facilitating or financing of transactions in gold at premium prices.

Treasury officials, with whom I have consulted, suggest that you answer such inquiries as follows:

"The United States Treasury looks with disfavor on any activities that would encourage or facilitate the buying and selling of gold outside the United States by United States citizens, residents, or enterprises. This includes the extension of banking facilities or funds for such transactions. The Treasury believes that such activities are not in the national interest."

A copy of this letter is being sent to the other Federal Reserve Banks.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Arthur W. Marget".

Arthur W. Marget,
Director,
Division of International Finance.