

Minutes for March 7, 1961

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. 1/

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

Gov. Szymczak

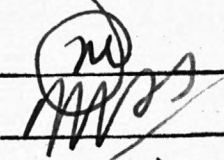

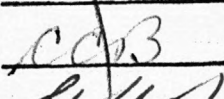
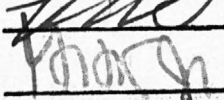

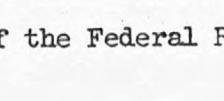

Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

1/ Meeting with Presidents of the Federal Reserve Banks.

A joint meeting of the Board of Governors of the Federal Reserve System and the Presidents of the Federal Reserve Banks was held at the Federal Reserve Building in Washington, D. C., on Tuesday, March 7, 1961, at 2:20 p.m.

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

Mr. Sherman, Secretary  
 Mr. Kenyon, Assistant Secretary

Messrs. Ellis, Hayes, Bopp, Fulton, Wayne, Bryan, Allen, Johns, Deming, Clay, Irons, and Swan, Presidents of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco, respectively

Mr. Dunne, Secretary of the Conference of Presidents of the Federal Reserve Banks  
 Mr. Wapensky, Secretary-designate of the Conference of Presidents

Before this meeting the Presidents had submitted a memorandum listing topics that they would like to discuss with the Board. The topics, the statement of the Presidents with respect to each, and the discussion at this meeting were as follows:

1. Check Mechanization Program. The Conference accepted and approved the February 17, 1961 report of the Subcommittee on Electronics (1) submitting current information on the pilot test program, (2) recommending that the contract between the Federal Reserve Bank of New York and the Stanford Research Institute be extended at the present rate of remuneration for one year beginning April 1, 1961, and (3) advising that the emphasis on the Subcommittee's activities and SRI's services during the next few months will be on the evaluation of both low-speed and high-speed equipment.

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Following comments by President Fulton on the content of the Subcommittee report and the recommendation therein, it was indicated that the Board would consider the matter and that the Conference would be advised.

2. Stock Option Programs for Banks. On the recommendation of two members of the Committee on Legislation, the Conference adopted the February 20, 1961 report of the Subcommittee on Legislation on stock option programs for banks which concluded (1) that the Federal Reserve System should not sponsor enabling Federal legislation for member banks, but might properly, in the event that appropriately interested parties had taken the initiative, cooperate informally in considering such draft legislation in order to assure that it includes appropriate safeguards for the public interest, and (2) that if such legislation, with appropriate safeguards, is proposed, the System should interpose no objection to its passage, as long as such programs are available to other corporations.

In taking such action the Conference emphasized that it took no position for or against the use of bank stock options. Messrs. Bryan, Swan, Allen, Deming, and Johns voted against adopting the report.

President Hayes discussed the background of the study and the conclusions reached in the Subcommittee report, following which Chairman Johns explained that the five Presidents who had voted against adoption of the report wished to take a clear and unequivocal position against stock option programs for banks. A negative vote, he said, was the only way they could register that view because of the manner in which the motion for adoption of the Subcommittee report was stated. If the view that such plans were to be countenanced should prevail, the dissenting Presidents would of course like to see all possible safeguards written into any enabling legislation, but they were not sanguine about the possibility of obtaining adequate safeguards. Chairman Johns added that on the majority side there were certain differences of shading and emphasis.

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President Clay indicated that his vote was on the basis that the Conference was taking no position either for or against the desirability of stock option programs at banks but that if Federal enabling legislation should be proposed by other parties the System should work through appropriate channels for the incorporation of proper safeguards in the public interest. If any legislation with adequate safeguards should be proposed, the System should interpose no objection as long as similar programs were available to corporations other than banks.

President Wayne said it should be emphasized that the majority of the Presidents, by their vote, were not endorsing stock option plans per se. His own position was that it would be desirable to have a carefully prepared statement of minimum safeguards available if legislation should be proposed, and for that purpose he considered the Subcommittee report excellent.

Governor Robertson inquired whether there was knowledge of pending legislation, and no such knowledge was indicated. Governor Robertson then commented that the Board had taken a position against stock option plans for banks when the proposed Financial Institutions Act of 1957 was under consideration. He assumed that the Subcommittee report was being made available merely for the benefit of the Board if and when the subject should come up in the form of proposed legislation, and that no reply from the Board to the Conference was expected. This was verified by Chairman Johns.

3. Emergency Operations. The Conference accepted and approved the report, dated February 21, 1961, of the Committee on Emergency Operations, (1) recommending certain textual



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changes in those portions of "Guidelines for Emergency Monetary Policy" (December 21, 1960 edition) concerning discount administration, purchase of Government securities, reserve requirements, and excess liquidity, (2)(a) recommending that issuance of general emergency circulars by Reserve Banks which have not yet undertaken such action be deferred, pending Committee appointment of, and consideration of the report of, an ad hoc subcommittee on uniformity of substance, rather than form, of general emergency circulars, and (b) recommending, in the event of possible "Guideline" revisions in the light of the foregoing recommendations, that the Subcommittee of Counsel on Emergency Operations review and recommend changes in the so-called legal documents, including the Board's Regulation No. 1, and (3) recommending that a spring conference of emergency planning officers be held in Washington to discuss matters of general interest, including Operation Alert 1961.

The approval of the Conference included an expression of preference for the second suggested alternative amendment of "Guidelines" on reserve requirements, viz., that member banks not be permitted to count correspondent balances as part of their required reserves in the immediate post-attack period and that no reserve requirements be imposed upon nonmember borrowing banks, with nonmember banks being required to maintain reserves in the later postattack period if developments then warranted such action.

The Conference also approved appointment of Messrs. Catanach (Philadelphia), Harrell (Cleveland), and Jones (Chicago) to the foregoing ad hoc subcommittee, with Mr. Harrell as Chairman.

After comments by President Hayes on the Subcommittee report, Governor Robertson indicated that the recommendations therein would be reviewed carefully. He then referred to developments that might suggest deferring the proposed conference of emergency planning officers, and President Hayes said the Committee on Emergency Operations would be glad to have guidance in that respect.

President Hayes suggested that insofar as the guidelines for emergency monetary policy dealt with open market matters, it might be

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desirable for the Board to determine whether there appeared to be any reason to go back to the Federal Open Market Committee, and Governor Robertson indicated that this point would be checked.

4. Basic Review of Eligibility of Commercial Bank Paper for Discount or as Collateral for Advances to Member Banks. The Conference approved Mr. Hayes' proposal that a System staff committee undertake a basic review of eligibility requirements, and recommend possible changes in the relevant statute, regulation, and bank administration, that would contribute to maximum usefulness of the discount window in the light of the substantial changes that have occurred in the country's banking practices and financial structure since the original enactment of the Federal Reserve Act.

President Hayes discussed the reasons underlying the proposal for a System staff study, following which President Wayne reported an indication that the Federal Advisory Council might be asked by bankers to approach the Board with a suggestion for a review looking toward an assurance of uniformity of administrative interpretations at all Federal Reserve Banks.

Governor Robertson inquired whether it was envisaged that the study would extend to the problem of training personnel at the Federal Reserve Banks, and this was verified by Chairman Johns.

The discussion of this topic concluded with the understanding that the Board would take the matter under consideration and that the Presidents would be advised.

5. State Unemployment Compensation Statutes. After Mr. Johns briefly reviewed certain questions concerning the integrated application of Federal-State unemployment compensation statutes to Federal Reserve offices in the Eighth District, the Conference referred to its Committee on Legislation the general question of application of State unemployment compensation statutes to Reserve Banks with the understanding

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that the Committee would appoint an ad hoc committee of counsel to undertake appropriate study. The Conference also concluded that it would be desirable, if the Board of Governors is agreeable, for a member of the Board's legal staff to serve on such subcommittee.

Chairman Johns discussed briefly the nature of a study that had been made by the legal staff of the St. Louis Reserve Bank and stated that a copy thereof had been made available to the Board's General Counsel. He brought out that if it should develop from further study that corrective legislation would be desirable, some degree of urgency was indicated.

Governor Balderston indicated that the Board would go into the matter and that the Conference would be advised.

6. Additional Items of Information Arising out of Current Conference Meeting. In addition to the foregoing matters, the following items of possible interest to the Board were considered by the Conference. They are reported herein as a matter of information.

a. Committee of Five on Retail Trade Statistics. The Conference ratified the interim vote of the Presidents designating Mr. P. E. Coldwell (Dallas) as the Reserve Bank representative on the Committee of Five, vice Mr. Robert V. Roosa (New York).

b. Computer Installations--Accounting Aspects. The Conference requested the Committee on Collections and Accounting to broaden its current study (effect on comparative cost data of computer purchase by some Reserve Banks and rental by others) to include all accounting aspects of computer installations (capitalization, reimbursement, etc.) not covered in the Accounting Manual.

c. Interdistrict Mailings. The Conference accepted the February 24, 1961 report of the Subcommittee on Systems and Procedures recommending that:

- (1) No Reserve Bank mail to any other Reserve Bank or Branch material received from (or other

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releases based upon such material) the Board of Governors, the Treasury Department or other governmental agencies.

- (2) Any Federal Reserve office wishing to receive from other Reserve Banks the foregoing material should request the other Banks to send it such material.
- (3) No material be mailed to other Reserve offices by any Branch Bank.
- (4) No material of the nature discussed in the report be mailed by any Reserve Bank (unless requested) to the Chairmen and Federal Reserve Agents of other Reserve Banks.

d. Computer Installations. The Conference accepted and approved the February 24, 1961 report of the Subcommittee on Systems and Procedures (1) summarizing discussions of the January 30-31, 1961, meeting of planning and operating officers related to computer installations, and (2) recommending that the Subcommittee be authorized to obtain from, and disseminate to, Reserve Banks periodic listings of written and "debugged" computer programs.

The Conference also approved a meeting, to be held at the Chicago Bank in April or May, of the heads of Reserve Bank Research Departments, to review research use of computers. The Federal Reserve Bank of Chicago was also authorized to invite the Subcommittee on Systems and Procedures to be present at the meeting.

e. Currency Verification and Destruction--Federal Tax Depository Receipts. Mr. Allen reviewed System experience on costs and reimbursement for the captioned functions for the six months' period ended December 31, 1960, and reported that the Fiscal Agency Committee had not yet seen reason to request higher reimbursement rates from the Treasury.

f. Food Stamp Program. Mr. Allen briefly reviewed the Administration's forthcoming food stamp program for aid to distressed areas and advised of the possible participation of the Federal Reserve Banks in that program. He stated that Mr. Marcus Harris, Chairman of the Conference Subcommittee on Collections, accompanied by Mr. John Farrell, will meet on March 8 with representatives of the Treasury and the Department of Agriculture to discuss the program.



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g. Major Medical Insurance--Retired Personnel. Mr. Bryan reported that a facsimile of the formal rider covering retired personnel under major medical insurance would be forwarded shortly to the Reserve Banks, and after individual review and approval by the latter would be added to the policy.

h. Claims Survey--Medical Insurance Program. Mr. Bryan reported that a progress report on anti-duplication clauses related to basic medical insurance had been received. He said it would be distributed.

i. Major Medical Insurance--False Claim Liability. The Conference requested its Committee on Personnel to study the question of possible liability incurred by a Reserve Bank in processing what might prove to be fraudulent claims under the major medical insurance program.

j. Congressional Legislation. The Conference (1) received the March 1961 summary of the Legal Department of the Federal Reserve Bank of New York, and the report, dated February 20, 1961, of the Subcommittee on Legislation on S. 153 (Extension of Reorganization Act) and (2) accepted and approved the following Subcommittee reports, both dated February 20, 1961:

<u>Legislation</u>	<u>Conclusion</u>
Proposed Old Series Currency Adjustment Act (H.R. 1733)	No objection by Subcommittee, which prefers, however, the language of S. 3714, passed by the Senate in 1960.
Legislation to Make Stable Price Levels an Explicit Aim of Federal Economic Policy under the Employment Act of 1946 (various Bills)	Proposed legislation of this type should continue to receive the support of the Federal Reserve System.

k. Retail Trade Statistics. The Conference (1) received a progress report from Mr. Irons on the forthcoming meeting of the Committee of Five, and (2) reviewed current experience of those Reserve Banks which had continued reports to department stores on a reimbursement basis.

l. Bank and Public Relations. The Conference received a report from the Chairman of the Committee on Bank and Public Relations advising (1) that agreement had been reached with NABAC on Reserve Bank dues (\$300 per head office and \$25 per

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branch) and (2) that two alternative "treatments" of a Federal Reserve movie had been prepared and would be reviewed shortly by his subcommittee.

m. Participation by Reserve Banks in International Programs of Internship. The Conference reviewed the question of Reserve Bank participation in international programs of internship (e.g., reciprocal American-foreign employment of student-trainees along professional and commercial lines) and concluded that such participation was a matter for the discretion of each Reserve Bank.

n. Coin Wrapping Service by Brink's. The Conference reviewed a proposal made to the Atlanta Bank whereby Brink's would wrap bulk coin received from the Reserve Bank and make deliveries to member banks at "bulk" rates. Shipping costs (but not risk of loss) would be borne by the Atlanta Bank. Mr. Bryan asked for comments, which were made, and said that the Atlanta Bank had no present intention of entering into such an agreement.

o. Conference Committees. The Conference created a new standing committee, the Committee on Systems and Procedures. A list of the appointments to Conference Committees made by the Committee on Committees and approved by the Conference is attached.

p. Election of Conference Officers. The Conference ratified its interim vote (taken in response to the recommendation of the nominating committee of Messrs. Irons, Bopp, and Swan) (1) electing Mr. Bryan as Chairman and Mr. Fulton as Vice Chairman for terms commencing with adjournment of the current sessions and extending through the March 1962 meeting, and (2) authorizing the incoming Chairman to select a person of his choice as Conference Secretary during his term. (Pursuant to such authority, Mr. Bryan designated Mr. Basil A. Wapensky, Federal Reserve Bank of Atlanta, as Conference Secretary.)

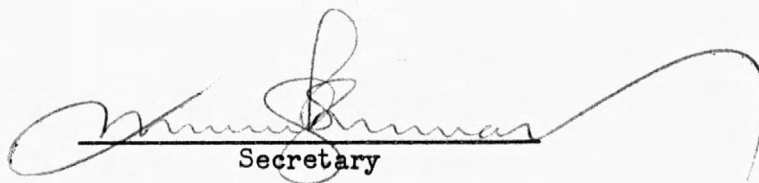
With two exceptions, there was no discussion of the foregoing items of information. With respect to the last two items, Chairman Johns referred to the election of new officers of the Conference and the designation of a new Secretary, after which President Bryan stated the reasons for the decision of the Conference to establish a new Committee on Systems

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and Procedures and summarized the nature of the assignments that would fall within the purview of the Committee.

Following a statement by President Fulton, in response to a question by Governor Balderston, concerning the status of the pilot installations under the check mechanization program, the meeting adjourned.



Secretary

Collections and Accounting

Deming\*  
Hayes  
Wayne

Miscellaneous Operations

Wayne\*  
Allen  
Swan

Systems and Procedures

Fulton\*  
Bopp  
Swan

Fiscal Agency Operations

Allen\*  
Fulton  
Clay

Personnel

Bopp\*  
Johns  
Deming

Research and Statistics

Irons\*  
Bopp  
Ellis

Legislation

Clay\*  
Irons  
Hayes

Bank and Public Relations

Swan\*  
Irons  
Ellis

Bank Supervision

Ellis\*  
Deming  
Clay

Emergency Operations

Hayes\*  
Fulton  
Allen

SUMMARY

Ellis: Bank Supervision\*; Research and Statistics; Bank and Public Relations

Hayes: Emergency Operations\*; Collections and Accounting; Legislation

Bopp: Personnel\*; Research and Statistics; Systems and Procedures

Fulton: Systems and Procedures\*; Fiscal Agency Operations; Emergency Operations

Wayne: Miscellaneous Operations\*; Collections and Accounting

Bryan:

Allen: Fiscal Agency Operations\*; Emergency Operations; Miscellaneous Operations

Johns: Personnel

Deming: Collections and Accounting\*; Personnel; Bank Supervision

Clay: Legislation\*; Fiscal Agency Operations; Bank Supervision

Irons: Research and Statistics\*; Legislation; Bank and Public Relations

Swan: Bank and Public Relations\*; Miscellaneous Operations; Systems and Procedures

\* Chairman