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Minutes for October 18, 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.

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

W

Gov. Mills

[Signature]

Gov. Robertson

R

Gov. Balderston

CB

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Gov. Mitchell

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on
 Wednesday, October 18, 1961. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
 Mr. Mills
 Mr. Shepardson
 Mr. King
 Mr. Mitchell

Mr. Sherman, Secretary
 Mr. Thomas, Adviser to the Board
 Mr. Young, Adviser to the Board and Director,
 Division of International Finance
 Mr. Fauver, Assistant to the Board
 Mr. Hackley, General Counsel
 Mr. Noyes, Director, Division of Research
 and Statistics
 Mr. Farrell, Director, Division of Bank Operations
 Mr. Solomon, Director, Division of Examinations
 Mr. Daniels, Assistant Director, Division of Bank
 Operations
 Mrs. Semia, Technical Assistant, Office of the
 Secretary
 Mr. Eckert, Chief, Banking Section, Division of
 Research and Statistics

Discount rates. The establishment without change by the Federal Reserve Banks of Richmond, Atlanta, St. Louis, and Dallas on October 12, 1961, and by the Federal Reserve Bank of Boston on October 16, 1961, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Item circulated to the Board. The following item, which had been circulated to the Board and a copy of which is attached to these minutes under the item number indicated, was approved unanimously:

Item No.

1

Letter to Burns State Bank, Burns, Kansas, interposing no objection to the declaration of certain dividends by the bank.

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Purchase of insurance by Federal Reserve Banks. The Board's letter of June 7, 1961, requested comments from the Federal Reserve Banks regarding justification for Reserve Bank expenditures for insurance premiums. The replies made by the Banks were summarized in a memorandum from the Division of Bank Operations dated September 7, 1961, and the matter was considered at the September 11, 1961, meeting of the Presidents' Conference. A memorandum from the Division of Bank Operations dated October 3, 1961, which had been circulated, reported on the findings of the Presidents' Conference. The Chairman of the Conference Committee on Miscellaneous Operations noted that the Banks (1) generally justified purchasing insurance where the contracts furnished services that they could not satisfactorily provide for themselves; (2) substantially agreed that purchased insurance was justifiable for public liability, workmen's compensation, automobile liability insurance, steam boiler and machinery insurance, and perhaps other minor areas; and (3) were split in their opinions concerning the bankers' blanket bond and fire and allied risks insurance. The memorandum also quoted the following paragraphs from the tentative minutes of the Conference:

To the extent that the Reserve Banks adopted a policy of self-insurance, the Presidents held that some form of loss sharing arrangement independent of the present Loss Sharing Agreement should be available to any two or more Banks desiring this form of "coverage." The Presidents felt, however, that any program of self-insurance against loss of proprietary interests should not be contingent upon substituting such loss sharing arrangement.

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The foregoing opinions represented in some cases the views of the Presidents alone and in other instances those of the Presidents and their respective Boards of Directors. It was recognized that this area generally has been regarded as within the responsibilities of Reserve Bank Directors, certain of whom are known to hold strong views on the subject. The Presidents, moreover, seemed reluctant to see the responsibility for insurance taken away from their Directors. The Conference agreed that no action need be taken other than to inform the Board of Governors of its opinions on the matter of purchased versus self-insurance.

Attached to the memorandum was a draft of letter to all Federal Reserve Banks that would note the action of the Conference of Presidents and which would concur in the opinion that purchased insurance could be justified for public liability, workmen's compensation, automobile liability insurance, steam boiler and machinery insurance, and for insurance where the contracts furnished services that the Banks could not satisfactorily supply for themselves. It would also concur with the majority of the Presidents that expenditures for property risk insurance were generally difficult to justify and would suggest that careful consideration be given to discontinuing automobile comprehensive coverage and collision insurance, insurance covering fire and allied risks on buildings and contents, and miscellaneous coverage of various types. However, the Reserve Banks should take into account the value of the services rendered by the insurance companies and whether those services could be adequately and satisfactorily replaced at a cost that would produce a significant saving. In addition, the proposed letter would express the view that continuation of bankers' blanket bond insurance

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under the provisions of the Loss Sharing Agreement of the Federal Reserve Banks in the amount of \$500,000 for each Reserve Bank was justified. With respect to the Presidents' view that some form of loss sharing arrangement independent of the present Loss Sharing Agreement be available to two or more Reserve Banks, the letter would question the need for such an arrangement but say that the Board would not object if the several Reserve Banks wished to enter into agreements for sharing losses arising from discontinuance of insurance on buildings or of other insurance.

At Governor Balderston's request, Mr. Daniels reviewed the experience of the Federal Reserve Banks with respect to insurance and commented on the views expressed by the Conference of Presidents in response to the Board's letter of June 7, 1961. He also pointed out that in 1960 System insurance premiums were \$166,000, against which honored claims amounted to \$14,000, not including workmen's compensation.

Governor Mills said that his reaction to the draft letter was that it was written in a spirit in which the Board was indirectly but arbitrarily demanding that the Reserve Banks adopt a self-insurance program on real property and equipment, but not necessarily on the several other types of insurance mentioned. He had serious reservations about imposing a Board opinion or directive in a field of responsibility that he believed belonged to the Federal Reserve Banks. In his opinion, these were decisions that properly should rest with Reserve Bank directors.

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There was not complete agreement among the Banks as to the handling of these insurance problems, and since the Reserve Banks were quasi-public institutions, he felt it inadvisable for the Board of Governors to impose a directive that could be regarded as overriding the judgment of an individual Bank's board of directors. He also questioned self-insurance on the grounds that losses suffered under an arrangement such as the System's Loss Sharing Agreement might not be as carefully scrutinized as they would be if covered by insurance with a private carrier.

Governor Shepardson said that his main question about the draft letter was that it raised questions and then said that the Reserve Banks should do as they thought best. He noted that the Federal Government generally carried its own property insurance risk. On the other hand, the boards of directors of some of the Reserve Banks felt that they should carry property insurance, so long as they had a responsibility for making the decision. However, a President of a Reserve Bank now carrying building insurance had told him that, if it should be decided as a System policy that the Reserve Banks were to follow the Federal Government's procedure of carrying their own risks on buildings, his directors would feel relieved of the responsibility for determining the need for insurance on the Bank's buildings and would no longer raise an objection to a self-insurance program for that risk. It seemed to Governor Shepardson that the Board's approach should be more definite one way or the other: either the responsibility as to insurance policy

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belonged to the boards of directors of the Reserve Banks and the Board of Governors should not raise any question, or the Board of Governors should take a definite position. The proposed draft of letter was not clear-cut in accomplishing either purpose.

Mr. Hackley remarked that the responsibility of the board of directors for administering the affairs of a Reserve Bank was subject only to the restrictions in specific fields covered by statute or by Board regulation and to the Board's general power to supervise the affairs of the Federal Reserve Banks. It had always been a difficult question to determine what the latter power contemplated, but his assumption had been that the Board of Governors would exercise that power if a matter of System importance was involved. If the Board felt, for example, that the policy as to property insurance was of System importance rather than a local matter, it could direct the Federal Reserve Banks as to the policy to be followed. Mr. Hackley also noted that the Reserve Banks had entered into the Loss Sharing Agreement and that that agreement could not be discontinued or amended without Board approval.

Governor Shepardson then said he thought the Reserve Bank Presidents had made a valid point in regard to carrying some types of insurance that gave the Banks the benefit of specialized services in the event of claims, as in liability cases. He felt that any letter the Board might send to the Reserve Banks should make a positive affirmative statement

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as to such services. As to property coverage, he thought the argument for self-insurance was valid there, and his personal view was that the Board might well take a position that, as a matter of System policy, such risks should be self-insured and purchased insurance discontinued.

Governor King suggested that the insurance question involved the broad principle of whether the System leaned toward the private or the public concept, and he thought the Board should give some thought to the posture the System had been taking in that respect in areas other than insurance. Questions could be raised in the minds of individuals if the System should move in the direction of a public institution in one area and in that of a private institution in another at the same time. While he had no great brief that the System should move either way, he did feel that over-all action should be more or less consistent. It occurred to him that the Board's responsibility might be best discharged by asking the Reserve Bank directors to review recent insurance costs and suggesting that they go over the question periodically.

Governor Mitchell stated that he believed insurance was a matter that should be settled at the Reserve Banks. If it were his decision, he would purchase only those types of insurance that carried with them services such as boiler inspection or defending the institution against liability claims and the like--things that he did not think the Reserve Banks were equipped to do as well as insurance companies. In his view, those who advocated property insurance for the Federal Reserve Banks did

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not analyze the Federal Reserve Bank statements and did not understand the function the System performed in creating money. Nevertheless, he would leave the decision at the Reserve Banks.

Governor Balderston commented that he had thought it desirable that the System take a look at its position insurance-wise, especially in view of premiums eleven times paid claims. That review having been made, the thought had occurred to him that, since the Chairmen of the Federal Reserve Banks would be meeting in Washington in a few weeks, the question might be placed on the agenda for discussion at that Conference because of the strong views held by some Reserve Bank directors regarding the desirability of purchased insurance. He agreed in principle that the directors of the Federal Reserve Banks were fully competent to appraise insurance questions, but he was afraid that they did not have all of the information that was available to the Board on this particular question.

After further discussion, it was agreed that the proposed letter to all Federal Reserve Banks not be sent, that the subject of insurance coverage be placed on the agenda for the forthcoming Chairmen's Conference, and that prior to the Conference a factual memorandum regarding the purchase of insurance by the Federal Reserve Banks would be distributed to the Chairmen, with copies to the Presidents.

Mr. Daniels then withdrew from the meeting.

Deposit Ownership Survey (Item No. 2). A memorandum dated October 9, 1961, from Mr. Noyes recommended that the Deposit Ownership Survey that would ordinarily be conducted in 1962 be deferred until 1963.

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Technical problems incurred in developing a new survey had proved unusually difficult. While deferral would create difficulties for users of the data, they could resort to rough estimating procedures without serious consequences as they did in 1956, when a previous deferral was necessary. Attached to the memorandum was a draft of letter to all Federal Reserve Banks, to which was attached a draft of suggested letter to inform respondents in the survey about the changed procedure.

Governor Mitchell suggested that the draft letter be revised to make clear that the survey for 1962 was being cancelled but that a modified survey was planned for 1963.

After some discussion of this and other suggestions, approval was given to a letter to all Reserve Bank Presidents in a form satisfactory to Governor Balderston. A copy of the letter so transmitted is attached as Item No. 2.

Liaison with Reserve Bank Presidents. Governor Mitchell raised for discussion the question of possible ways of keeping the Presidents of the Federal Reserve Banks informed of matters the Board was considering, especially in regard to research projects, before the official notification was sent to the Presidents of an action taken. The Deposit Ownership Survey just discussed was a case in point, where the research directors knew of plans but some Presidents may not have been informed, and another such case was the recent revision with respect to the reporting of bank

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debts. He had the feeling that at the present time at least some of the Presidents did not feel that they were kept sufficiently informed of matters that might be coming to them from the Board.

In the discussion that followed, reference was made to the System Research Advisory Committee as one means of keeping the Presidents as well as others in the System informed of pending matters in the research field, but it was recognized that this did not entirely meet the point Governor Mitchell had in mind.

After further discussion the Secretary was requested to bear in mind the question Governor Mitchell had raised and the possibilities for improving communication to the Presidents of information about matters that might come before the Board for action.

Thereupon the meeting adjourned.

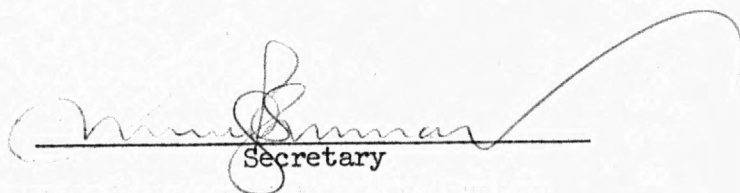
Secretary's Notes: Pursuant to the action of the Board on October 5, 1961, in authorizing provision of a fallout shelter in the Board's building, there was sent today to White & Mariani, Architects, Engineers and Planners, a letter in the form of attached Item No. 3.

Pursuant to the recommendation contained in a memorandum from the Division of Personnel Administration, Governor Shepardson approved on behalf of the Board on October 16, 1961, acceptance of the resignation of Robert B. Hamilton, Personnel Technician in that Division, effective the close of business October 22, 1961.

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Upon consideration of a memorandum dated October 17, 1961, from Mr. Landry, Assistant to the Secretary, Governor Shepardson today approved on behalf of the Board a visit by a group of participants in the Economic Development Institute sponsored by the International Bank for Reconstruction and Development on November 15, 1961, for a program which would include luncheon in the staff dining room.



Secretary

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

Item No. 1
10/18/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 18, 1961

Board of Directors,
Burns State Bank,
Burns, Kansas.

Gentlemen:

The Board of Governors of the Federal Reserve System has received a copy of your letter of September 21, 1961, addressed to Mr. L. F. Mills, Vice President, Federal Reserve Bank of Kansas City, in which you explain why dividends were declared in 1960 and to June 27, 1961, without obtaining the approval of the Board as required by Section 9, paragraph 6, Federal Reserve Act, and Section 5199(b), United States Revised Statutes. You also declared one additional dividend of \$750 on October 16, 1959, for which the approval of the Board should have been obtained as the amendments to the statutes requiring such approval were enacted effective September 8, 1959.

After giving careful consideration to the facts related to this matter, the Board will make no objection to the declaration of the dividends mentioned above. This letter does not authorize any other declaration of dividends for 1961 or later.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Item No. 2
10/18/61

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

Z-5345 (On office
copies only)ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

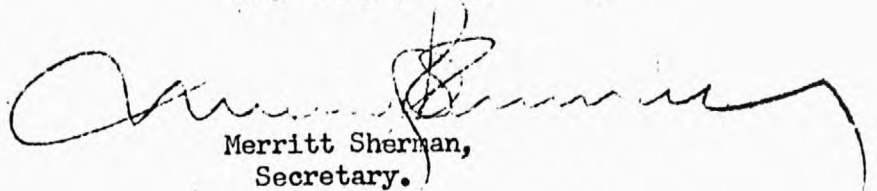
October 18, 1961.

Dear Sir:

This is to advise you that the annual Survey of Demand Deposit Ownership which ordinarily would be conducted in January 1962 will not be made, and the next such survey is being planned for sometime in 1963. Technical difficulties encountered in the development of a new survey cannot be satisfactorily resolved in time to conduct it at the regularly scheduled date.

The System Research Advisory Committee has expressed concern that this deferral might be interpreted by respondents as an indication of loss of System interest in the survey, thereby giving rise to bank relations problems when the survey is reinstated. To minimize such difficulties, the Committee has suggested that respondents be advised that, while the survey will be omitted in 1962, one will be made in the following year. A draft letter that may be used in so informing respondents has been prepared at the suggestion of the Committee, and a copy is enclosed.

Very truly yours,



Merritt Sherman,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Draft
10/18/61

Dear Sir:

In the course of its continuing reappraisal of all statistical data collected from banks, the Federal Reserve System is now reviewing the survey of the ownership of demand deposits that has been made annually for the past several years.

The survey originally scheduled for January 1962 is not to be made, but it is now planned to make one early in 1963. When plans for the 1963 survey have been developed, ample notice will be sent to the banks whose cooperation will be requested.

Your participation in past surveys that have been made by the Federal Reserve System is sincerely appreciated.

Very truly yours,

President.

TO RESPONDENTS IN DEPOSIT OWNERSHIP SURVEY

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

Item No. 3
10/18/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 18, 1961.



White & Mariani,
Architects, Engineers and Planners,
1145 19th Street, N. W.,
Washington 6, D. C.

Attention: Mr. Theodore F. Mariani

Gentlemen:

The Board of Governors has considered your letter proposal of October 6, 1961, enclosing two copies of a "Form of Agreement Between Owner and Architect," and your supplementary letter of October 12, 1961, containing further advice as to your intent in regard to the payment of fees.

On the basis of these letters, the Agreement has been executed on behalf of the Board of Governors. Two executed copies are enclosed herewith. It will be appreciated if you will return one executed copy, together with two conformed copies for the Board's files.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures