

Minutes for January 2, 1962

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

Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

Gov. Mitchell

Minutes of the Board of Governors of the Federal Reserve System
on Tuesday, January 2, 1962. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel
Administration
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Smith, Assistant Director, Division of
Examinations
Mr. Thompson, Assistant Director, Division of
Examinations
Mr. Sprecher, Assistant Director, Division of
Personnel Administration

Discount rates. The establishment without change by the Federal Reserve Bank of Kansas City on December 29, 1961, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

First Virginia Corporation. There had been distributed to the Board memoranda from the Division of Examinations dated December 28, 1961, and January 2, 1962, regarding an apparent change in the financial reporting procedure of First Virginia Corporation, Arlington, Virginia. It was noted that on its books First Virginia reflected its investment in subsidiaries at cost. In annual reports to shareholders, such

1/2/62

-2-

investments had in the past been reflected at the Corporation's proportionate interest in net asset value, with the excess of such value over cost reflected in "surplus from equity in affiliates". However, in a balance sheet as of August 31, 1961, submitted as part of an application to acquire a majority of the shares of a bank in Winchester, Virginia, there was shown, in addition to the investment in subsidiary banks at net asset value, an amount of \$736,800 representing the "excess of cost of capital stock of subsidiary banks over the Corporation's equity in their net assets at date of acquisition." Evidence that First Virginia intended to follow a reporting procedure such as reflected in the aforementioned balance sheet was afforded by a Preliminary Prospectus filed with the Securities and Exchange Commission, on which comments had recently been requested by the Commission. The Prospectus indicated that First Virginia intended to amortize the item of \$736,800 over an 18-year period.

The memoranda expressed the view that the changed reporting procedure would not be in line with conservative practice and that it would not conform with a long-standing policy of the Board, first indicated in the Board's 1935 Standard Voting Permit Agreement. This agreement provided that within not more than two years from the date such a voting permit was granted, the holding company affiliate would charge off or otherwise eliminate from its assets the part of the carrying value on its books of its investments in stocks of subsidiary

1/2/62

-3-

and/or affiliated organizations that was in excess of the adjusted value of such stocks. Through the ensuing years, holding company affiliates had not shown their investments in subsidiary banks at amounts greater than their interest in the net assets of the subsidiary banks. Since the matter might come up in considering a general voting permit application from First Virginia at some future date, it was believed that the Corporation should be advised of the Board's policy. Accordingly, it was suggested that a letter of advice be sent to First Virginia Corporation, the substance of which would also be sent to the Securities and Exchange Commission in response to its request for comments on the recently-filed Preliminary Prospectus.

Following explanatory comments by Messrs. Solomon and Thompson, there ensued a rather extended discussion during which questions were raised by members of the Board for the purpose of eliciting information on the history and rationale of the Board's long-standing policy, as described in the memoranda, the history and growth of First Virginia Corporation, and the effect of the revised method of reporting. Consideration also was given to the steps that would be available to the Board if it should question the change in reporting procedure, but First Virginia nevertheless continued to follow such a procedure. Differences between the "holding company affiliate" statute and the Bank Holding Company Act of 1956 likewise were mentioned.

The discussion reflected general agreement that an accounting procedure under which a holding company's affiliate's investment in

1/2/62

-4-

subsidiary banks was reflected at an amount equal to its proportionate interest in their net assets would be appropriate and conservative. However, at least two members of the Board expressed doubt whether the Board should interpose objection if First Virginia reflected its investment in subsidiaries either at its proportionate interest in the net asset value of such subsidiaries or at cost, provided the Corporation followed a consistent practice. The suggestion then was made that before sending any letter to First Virginia it might be desirable to ask representatives of the Corporation to come to the Board's offices on a mutually convenient date for a conference with representatives of the Legal and Examining Divisions, in order that there might be a clear understanding of facts and in order that First Virginia might have an opportunity to present arguments in favor of the reporting procedure that it evidently intended to follow before the Board's views were reduced to writing in a letter to the Corporation. This suggestion contemplated that representatives of the Securities and Exchange Commission would be invited to participate in such a conference and that the matter would be brought back to the Board for further consideration after the conference had been held.

Agreement being expressed with this suggestion, it was understood that such a procedure would be followed.

Messrs. Hexter, O'Connell, and Thompson then withdrew from the meeting.

1/2/62

-5-

Philadelphia salary structure (Item No. 1). There had been circulated to the Board a memorandum from the Division of Personnel Administration dated December 15, 1961, with respect to a request from the Federal Reserve Bank of Philadelphia for Board approval of a 5 per cent increase in the salary structure applicable to employees of that Bank, effective January 15, 1962. The Bank also requested approval of payments to four part-time employees whose salaries, when converted to a full-time basis, would exceed the maximum of their respective grades. The Personnel Division recommended that these requests be approved. It further recommended that the Bank be informed that it would be unnecessary to request specific approval of salaries for the part-time positions in question each time the salary structure was adjusted. Submitted with the memorandum was a letter to the Reserve Bank reflecting these recommendations.

The memorandum noted, with respect to the request, that the directors of the Reserve Bank had approved a general salary increase of 3 per cent for all nonofficial personnel concurrent with the adjustment in salary structure. Adjustments of slightly more than 3 per cent would be made in the relatively few cases in which employees' salaries would otherwise be below the minimum of their respective job grades. It was further noted that the general adjustment of 3 per cent was not provided for specifically in the Bank's 1962 budget, although President Bopp had mentioned it to the Board's Budget Committee as a distinct

1/2/62

-6-

probability. The Bank's budget letter had indicated that provision was being made for merit increases amounting to 2.5 per cent of 1961 salaries.

When the memorandum was in circulation to the Board, Governor Mitchell indicated that he had a question with respect to the part of the proposal that contemplated a general 3 per cent salary increase.

In presenting the matter, Mr. Johnson brought out that after the proposed 3 per cent general increase had been effected, the remaining latitude within the grades of the revised salary structure would be used for merit salary increases. This represented a change in the approach of the Philadelphia Bank, which previously had followed the procedure of making full upward salary adjustments coincident with a salary structure adjustment. However, the general practice of the other Reserve Banks was to bring employees up to the minimums of their new grades and, except for that, to follow a merit salary increase program. Accordingly, the proposed program of the Philadelphia Bank represented a partial step in the direction of the procedure followed generally by the other Reserve Banks.

Governor Mitchell indicated that he questioned whether the proposed 3 per cent blanket salary increase would be consistent with good salary administration. He recalled that the Federal Reserve had spoken repeatedly against the use of an automatic escalator in labor contracts. He did not understand why the Philadelphia Bank would want to follow a practice of this kind; in his judgment it would be better to provide increases on a merit basis.

1/2/62

-7-

In reply, Mr. Johnson pointed out that it could be said, in favor of such a procedure, that it was easier to administer. Certainly, general salary increases meant that less deserving employees would receive increases along with those who were more deserving. However, the Philadelphia Bank had adhered to the philosophy that the rank of employees within grade reflected proper alignment; if an employee was not producing satisfactorily, he would be low in his grade. Under this theory, if the market should move up, salaries should be moved up generally so that the existing alignment of salaries within particular grades would be maintained. The Philadelphia Bank had been questioned on this philosophy from time to time, but had felt that it was appropriate. According to the present plan, the Bank would be moving away from a full across-the-board increase to only a partial increase, and the management reportedly anticipated some difficulty in selling even this modified approach to the employees.

In further discussion, Governor Mitchell inquired whether the Philadelphia Bank should not be advised that it was out of step with the practice of other Federal Reserve Banks. If such advice was given, he would be inclined to let the matter go at that point, for in general principle he felt that the Reserve Banks should be permitted to operate according to their own judgment and discretion.

1/2/62

-8-

Mr. Johnson responded that the Philadelphia Bank was aware that its approach was unique within the System. The subject had been discussed frequently at System personnel conferences.

Governor Mitchell also noted that the Philadelphia Bank had not made provision in its 1962 budget for the full impact of the general pay increase, to which Mr. Johnson replied that other Reserve Banks had from time to time also followed the practice of not making provision in their budgets for increased salary expenditures incident to possible salary structure adjustments, apparently feeling that the justification for and approval of such adjustments should not be presumed.

Members of the Board, other than Governor Mitchell, then indicated that they would be inclined to go along with approval of the proposed salary structure adjustment, even recognizing that the Bank intended to effect a general 3 per cent pay increase. Despite such reservations as they might have personally as to the philosophy embodied in the general pay increase procedure, they would be inclined to rely on the judgment and discretion of the Bank management. Governor Mitchell stated that he also would be willing to approve the salary structure adjustment, on which he had no question. He observed that the Board was not being called upon to approve the 3 per cent general pay increase.

Accordingly, the proposed letter to the Federal Reserve Bank of Philadelphia was approved unanimously. A copy is attached as Item No. 1.

Mr. Sprecher then withdrew from the meeting.

1/2/62

-9-

Examination of Kansas City Reserve Bank. There had been circulated to the Board the report of the examination of the Federal Reserve Bank of Kansas City made by the Board's examining staff as of July 31, 1961, along with the usual accompanying memoranda.

At the request of the Board, Mr. Smith commented on matters disclosed by the examination, and the discussion that ensued related principally to the administration of the Reserve Bank's discount window. It was noted that the report of examination listed six country banks whose borrowings had been frequent or protracted; the previous year's report of examination had cited 32 such banks. Of the six banks mentioned in the 1961 examination report, two had continued to borrow steadily since the date of examination. The comments made during the discussion brought out that in connection with the 1960 examination report a letter had been sent by the Board to the Kansas City Reserve Bank, to which a reply had been received and noted. This subject had also been touched upon by the Chairman of the Reserve Bank in a letter written following receipt of the 1961 examination report.

After a number of questions had been discussed relating to the extent to and manner in which cases of protracted borrowing appeared to be followed by the Reserve Bank and the general philosophy of discount window administration in the Tenth District, it was the consensus that the current circumstances, including the improvement noted between the 1960 and 1961 examination dates, appeared to make unnecessary any action

1/2/62

-10-

on the part of the Board at this time. However, it was understood, pursuant to a suggestion made during the discussion, that on some mutually convenient occasion Governor Mitchell would discuss informally with President Clay the administration of the discount function at the Kansas City Bank.

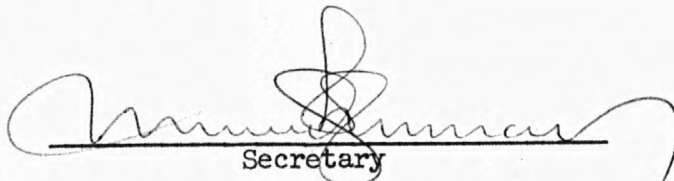
There were no other matters disclosed by the examination of the Reserve Bank that appeared to require action on the part of the Board.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Memorandum from the Division of International Finance recommending an increase in the basic annual salary of Marcia G. Patz, Secretary in that Division, from \$5,335 to \$5,655, effective January 7, 1962.

Letters to the Federal Reserve Banks of Boston, New York, and Philadelphia (attached Items 2, 3, and 4) in connection with a call for reports of condition as of December 31, 1961, from foreign banking and foreign financing corporations.


Secretary

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

Item No. 1
1/2/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 2, 1962



CONFIDENTIAL (FR)

Mr. Robert N. Hilkert,
First Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia 1, Pennsylvania.

Dear Mr. Hilkert:

As requested in your letter of December 7, 1961, the Board of Governors approves the following minimum and maximum salaries for the respective grades of the employees' salary structure, effective January 15, 1962:

<u>Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
1	\$ -	\$ -
2	2,520	2,940
3	2,560	3,395
4	2,950	3,980
5	3,385	4,570
6	3,835	5,175
7	4,335	5,850
8	4,845	6,540
9	5,370	7,250
10	5,890	7,950
11	6,490	8,760
12	7,175	9,685
13	7,875	10,630
14	8,605	11,615
15	9,450	12,760
16	10,345	13,965

Salaries should be paid to employees, other than officers, within the limits specified for the grades in which the positions of the respective employees are classified. It is assumed that all employees whose salaries are below the minimums of their grades as a

Mr. Robert N. Hilkert

- 2 -

result of the structure increase will be brought within appropriate ranges as soon as practicable, and not later than April 15, 1962.

The Board also approves total annual payments, as indicated, to four part-time employees occupying the following positions:

<u>Title</u>	<u>Salary</u>
Medical Director	\$6,352 per annum
Waitress (official dining room)	2,068 per annum

In the future, it will not be necessary to request specific approval of salaries for these positions as long as their adjustments are related to across-the-board or structure adjustments for full-time employees.

It is noted that your Board of Directors has authorized, effective January 15, an across-the-board salary adjustment of 3 per cent which is not fully provided for in the 1962 budget for employees' salaries.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 2
1/2/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 3, 1962

Mr. B. F. Groot, Vice President,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Groot:

Enclosed is a copy of a letter dated today, addressed to Boston Overseas Financial Corporation, calling for a report of condition as of December 31, 1961. You will observe that the letter requests that the report called for be submitted in duplicate to the Federal Reserve Bank for transmittal to the Board of Governors.

Upon receipt of the report it will be appreciated if you will have a proof made of the footings and obtain the correction of any obvious errors in the report. Please forward the original copy of the report to the Board and retain a copy for your files.

A complete review of the report will be made in the Board's Division of Examinations, and any correspondence which may be necessary as a result thereof will be initiated by the Board with a copy to you for your information.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Enclosure

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

Item No. 3
1/2/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 3, 1962

Mr. Howard D. Crosse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Crosse:

Enclosed are copies of letters calling for reports of condition as of December 31, 1961, from the following foreign banking and foreign financing corporations in the Second District operating under the provisions of Section 25 and Section 25(a) of the Federal Reserve Act:

Bankers Company of New York
Chase Manhattan Overseas Corporation
International Banking Corporation
The Gallatin Company, Inc.
Virgin Islands National Bank
Bank of America
Bankers International Corporation
Bankers International Financing Company, Inc.
Chase International Investment Corporation
Chemical International Banking Corporation
Chemical International Finance, Ltd.
The First Bank of Boston (International)
Morgan Guaranty International Banking Corporation
Morgan Guaranty International Finance Corporation

You will observe that the letters request that the reports called for be submitted in duplicate to the Federal Reserve Bank for transmittal to the Board of Governors.

Upon receipt of the reports it will be appreciated if you will have a proof made of the footings and obtain the correction of any obvious errors in the reports. Please forward the original copy of the reports to the Board and retain a copy for your files.

A complete review of the reports will be made in the Board's Division of Examinations, and any correspondence which may be necessary as a result thereof will be initiated by the Board with a copy to you for your information.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Enclosures

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

Item No. 4
1/2/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 3, 1962

Mr. Joseph R. Campbell, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia 1, Pennsylvania.

Dear Mr. Campbell:

Enclosed is a copy of a letter dated today, addressed to Philadelphia International Investment Corporation, calling for a report of condition as of December 31, 1961. You will observe that the letter requests that the report called for be submitted in duplicate to the Federal Reserve Bank for transmittal to the Board of Governors.

Upon receipt of the report it will be appreciated if you will have a proof made of the footings and obtain the correction of any obvious errors in the report. Please forward the original copy of the report to the Board and retain a copy for your files.

A complete review of the report will be made in the Board's Division of Examinations, and any correspondence which may be necessary as a result thereof will be initiated by the Board with a copy to you for your information.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Enclosure

