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Minutes for January 15, 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 Monday, January 15, 1962. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Robertson

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Harris, Coordinator of Defense Planning
Mr. Hexter, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Spencer, General Assistant, Office of the Secretary

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 as Item No. 1, was approved unanimously:

Letter to Greene County Bank, Greeneville, Tennessee, approving the establishment of a branch at Tusculum Boulevard and Mason Street.

Emergency regulations (Items 2, 3, and 4). There had been distributed a memorandum dated December 18, 1961, from Mr. Harris, Coordinator of Defense Planning, submitting drafts of proposed Emergency Regulations Nos. 1 and 2 of the Board of Governors.

In response to a request for comment on this subject, Mr. Harris pointed out that in 1956 the Board approved a set of draft documents

for emergency operations, and that in May 1961 it adopted certain guides for emergency monetary policy. The two proposed regulations now before the Board for consideration were actually a consolidation of the eight draft documents approved in 1956. They were consistent with the Board's guides for emergency monetary policy and with Emergency Banking Regulation No. 1 issued in January 1961 by the Secretary of the Treasury.

Mr. Harris went on to say that the proposed regulations had been reviewed by the Committee on Emergency Operations and by the Conference of Presidents, which approved them at its meeting on December 4, 1961, with the understanding that certain minor changes would be made. Subsequently, these changes were worked out by the Subcommittee on Emergency Operations and the Subcommittee of Counsel. Therefore, the regulations were now submitted for Board approval. If approved, the regulations would be sent to the Federal Reserve Banks and would become automatically effective in the event of an attack on the United States.

Following comments by Governor Robertson in which he expressed the opinion that it was important to have the regulations adopted and pre-positioned, the Board approved unanimously the two emergency regulations. Copies are attached to these minutes as Items 2 and 3. A copy of the letter sent to each Federal Reserve Bank in accordance with this action is attached as Item No. 4.

Mr. Harris then withdrew from the meeting.

Certificates of deposit. There had been distributed a memorandum dated January 9, 1962, from the Legal Division regarding the issuance by member banks of certain types of certificates of deposit.

As indicated in the memorandum, early in 1961 some of the large banks in New York and other cities announced the issuance of negotiable time certificates of deposit in large denominations, and it soon became apparent that such certificates would be freely traded in the market. More recently, Citizens and Southern National Bank, Atlanta, Georgia, had announced a program under which it would issue "Citizens and Southern Savings Bonds" redeemable at specified amounts on the anniversary dates of the deposit up to 5 years, within the 4 per cent maximum rate prescribed by the Board. Likewise, the Franklin National Bank, Mineola, New York, had announced the proposed issuance of 20-year time certificates in denominations from $100 to $10,000, with "redemption values" that would increase each year so that after 20 years the original deposit would double itself.

The memorandum stated that although no question had been formally presented to the Board, the issuance of the certificates suggested certain questions as to their legality or propriety. In general, the three questions were (1) whether the issuance of the certificates complied with Regulation Q, (2) whether the certificates constituted "securities" of a kind that could not legally be issued by banks, and (3) whether the certificates could properly be called "savings bonds." For reasons stated in the memorandum, it was the view of the Legal Division that:

(1) None of the three types of certificates described in the memorandum would appear to violate any provision of the Board's Regulation Q with respect to payment of interest on deposits.

(2) It was doubtful that the issuance of any such certificates would be regarded as a violation of the criminal provisions of section 21 of the Banking Act of 1933 and, for this reason, it was believed that the Board would not be warranted in reporting the matter to the Justice Department as a possible violation of that statute.

(3) It was possible that the Treasury Department might object to certificates of the kind being issued by the Citizens & Southern National Bank under the name of "savings bonds"; and, before indicating any approval of the certificates under Regulation Q, the Board might wish to consult the Treasury Department on this point.

In commenting on the subject, Mr. Hackley noted that from time to time members of the Board had raised questions with respect to the propriety of the new types of certificate being offered by member banks. He then went on to describe the characteristics of the three types of certificate dealt with in the memorandum. While there was no specific question before the Board at the moment, he said, the matter had been studied by the Legal Division to determine whether the certificates would seem to violate Regulation Q and, more particularly, whether their issuance would appear to constitute an issuance of securities in violation of section 21 of the Banking Act of 1933, a criminal statute.

In further explanation, Mr. Hackley stated that the Securities Exchange Act of 1933 defines a "security" in language embracing certificates of deposit. However, that Act expressly exempts from its provisions any security issued by a bank. Consequently, issuance of the certificates

of deposit in question would not be subject to the Act. On the other hand, in a narrow sense "securities" might be distinguished from deposits as meaning either equity interests, such as stock, or obligations representing capital borrowings, such as bonds, notes, and other debentures. Therefore, in the narrow sense, question might arise as to whether certificates of the kind involved would constitute "securities" rather than deposits and, if so, whether the issuance of such certificates would involve a possible violation of the provisions of section 21 of the Banking Act of 1933. This seemed doubtful, however, and it was believed that the Board would not be warranted in reporting the matter to the Justice Department.

With respect to whether there would be any violation of the Board's Regulation Q, Mr. Hackley commented that there was nothing in the Regulation that would prohibit a bank from issuing a negotiable certificate of deposit. The Regulation had always contemplated, in fact, that time certificates might be negotiable. Further, there was nothing in the Regulation limiting the maturity of certificates. There was, of course, the possibility that a long-term certificate might result in an evasion of the maximum interest rate provisions of Regulation Q if the Board should reduce those maximum rates. It was understood, however, that the certificates being issued provided that the rate of interest paid would be subject to the regulations of the Board of Governors. As far as Regulation Q was concerned, there was nothing to

prevent a member bank from calling these certificates savings bonds as long as the certificates were otherwise in compliance with the Regulation.

Mr. Hackley also said that the Federal Deposit Insurance Corporation had advised Citizens and Southern National Bank that the bank's certificates would constitute insured deposits for the purposes of the Federal Deposit Insurance Act; also, that if such certificates were issued by a nonmember insured bank, they would comply with the interest rate regulations of the Corporation. Further, Citizens and Southern was understood to have consulted the Federal Reserve Bank of Atlanta, and the Reserve Bank reportedly did not see any respect in which the certificates would fail to comply with Regulation Q. The Comptroller of the Currency apparently had not been asked by either Citizens and Southern or Franklin National to pass on the certificates being issued by those banks. As to whether there would be any objection to calling the certificates savings bonds from the standpoint of confusion that might result, that was a matter on which a Treasury decision would be in order, and it was understood that the Treasury had been considering the matter.

In conclusion, Mr. Hackley repeated that the Board had no specific question before it at this time and noted that the Legal Division had made no recommendation for Board action.

In the ensuing discussion, Governor Mills said that in his judgment the legal position expressed in Mr. Hackley's memorandum was

unassailable. However, he had personally a thoroughgoing distaste for the operation, especially the emphasis placed by banks on the interest factor and on the ability of the owner of a negotiable certificate of deposit to dispose of it, should he choose to do so, at whatever the market would bring at any particular time. He thought it would be unfortunate--and there had already been slight hints of such a development--if banks should be rated in the eyes of the market and acute investors according to their particular degree of solvency and the capability of management. When the negotiable certificates were traded in the market, there might be a discount differential from bank to bank that under unsettled conditions could reflect on particular banks.

Mr. Hackley noted at this point that the Comptroller of the Currency had received an inquiry as to whether it would be proper for a national bank to use an investment firm for the purpose of distributing the bank's certificates of deposit. This, of course, was a matter for the Comptroller to determine, but it again suggested that the certificates might be in the nature of securities rather than deposits.

Chairman Martin stated that this touched upon a point in the memorandum that had bothered him. It did not seem to him entirely clear whether the certificates were or were not regarded as securities.

Mr. Hackley replied that it was the feeling of the Legal Division that the certificates should not be regarded as securities in such a way

that their issuance would cause banks to be engaged in the business of issuing securities under section 21 of the Banking Act of 1933. That would be a matter for determination by the courts and the Department of Justice. Normally, however, the Board did not report apparent violations of criminal provisions of the law to the Justice Department unless there seemed to be a sound basis for making such a report, and it seemed questionable whether the Board would have sufficient basis in this instance to warrant making a report to the Department.

After further comments bearing on this point, Governor Robertson said that he had no question about the legal position expressed in the memorandum. However, he felt that the memorandum missed the point. In his opinion, a dangerous sort of practice was developing, a practice that the existing law did not cover. In his judgment, the certificates were securities. By use of them, funds could be drained from smaller communities because the negotiable certificates would bear the name of a large, well-known bank. As he saw it, the real question was whether the Board ought to be amending Regulation Q to prohibit the use of the negotiable certificates of deposit. The problem did not call simply for reliance on the legality of the issuance of such certificates; instead, it called for a research project to see whether it would be wise to act before the practice grew further. In making such a study, it might be well to submit the matter to the Justice Department and the Securities and Exchange Commission, merely to get the views of anyone

who would have anything to add. On the other hand, this was primarily the Board's job, and perhaps no referral of the question was necessary. In any event, this was a matter that should be treated as a new question and not simply from the standpoint of whether there was any violation of existing law or regulation. The question was whether the problem deserved to be treated by law or regulation.

Chairman Martin expressed the view that, as Governor Robertson had suggested, the staff should be asked to review the matter again. The Board should keep closely in touch with developments in this area, for this practice was one that could grow rapidly. There should be full discussion by the Board at the earliest possible time.

In this connection, Mr. Hackley commented that if the Board was concerned and wanted full information on developments in this field, there might be merit in asking the Federal Reserve Banks to determine, insofar as possible, the extent to which the certificates of deposit were being issued in the respective Reserve districts.

Agreement was expressed with this suggestion, as well as with the suggestion that the Board's staff, including the Research, Examinations, and Legal Divisions, begin a high-priority study of the kind outlined by Governor Robertson. Accordingly, it was understood that such a study would be undertaken.

All of the members of the staff except Mr. Sherman then withdrew from the meeting.

Question regarding use of Staff Dining Room. Chairman Martin raised the question whether the Board would see any impropriety in his using the Staff Dining Room on April 11, 1962, for a luncheon for the trustees and senior class of St. Timothy's School in Baltimore, Maryland, where his daughter was a senior. He understood that the class was visiting various Government offices in Washington and that there would be about 40 people altogether, including the trustees. He would pay the cost involved, so the only question related to the use of the facilities.

It was agreed unanimously that there would be no objection to the use of the Staff Dining Room on the date indicated for the purpose referred to by Chairman Martin.

The meeting then adjourned.

Secretary

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

Item No. 1
1/15/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 15, 1962

Board of Directors,
Greene County Bank,
*Greenville, Tennessee.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Atlanta, the Board of Governors of the Federal Reserve System approves the establishment of a branch at the corner of Tusculum Boulevard and Mason Street, Greenville, Tennessee, by Greene County Bank, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

* Should be Greeneville. See bank's letterhead.

Item No. 2
1/15/62

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

EMERGENCY REGULATION NO. 1

Operations of Federal Reserve Banks

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
EMERGENCY REGULATION NO. 1

Operations of Federal Reserve Banks

Section 1. Authority. This Regulation is issued pursuant to authority conferred upon the Board of Governors of the Federal Reserve System by the Federal Reserve Act (38 Stat. 251), as amended, by Section 5(b) of the Trading with the Enemy Act of October 6, 1917, (40 Stat. 415), as amended, by Delegation Order, January 10, 1961, from the Secretary of the Treasury to the Board, and by Emergency Banking Regulation No. 1, January 10, 1961, issued by the Department of the Treasury.

Section 2. Time of Taking Effect. This Regulation shall be effective immediately after an attack on the United States.

Section 3. Continuance of Operations. Except as provided in Section 4, all Federal Reserve Banks and branches, without regard to whether or not the head office or any other branch or branches are functioning, shall remain open and continue their operations and functions and permit the transaction of business during their regularly established hours.

Section 4. Curtailment of Operations. Any Federal Reserve Bank or branch may temporarily curtail, limit, suspend, or delegate any or all of its operations and functions to such extent and for such period as it may deem necessary if located in an area which is unsafe because of enemy or defensive action, or if essential personnel or physical facilities become unavailable, or if the effective performance of its operations and functions has been

impaired as a result of an attack; provided, that the Board of Governors shall be notified as soon as practicable of any action taken pursuant to this Section; provided further, that operations shall be resumed when the cause of curtailment, suspension, or delegation has been remedied, removed, or dissipated.

Section 5. Change of Quarters. In the event that the main office or any branch of any Federal Reserve Bank becomes wholly or partially unusable as a result of an attack, the Federal Reserve Bank or branch so affected is authorized to, and, if possible, shall establish temporary substitute quarters, offices, or facilities at any place within its own or any other district if the establishment of such quarters, offices, or facilities will, in the judgment of such Federal Reserve Bank or branch, facilitate the transaction or resumption of operations; provided, that the Board of Governors shall be notified as soon as practicable of any action taken pursuant to this Section; provided further, that the use of substitute quarters, offices, and facilities shall be terminated as soon as practicable.

Section 6. Performance of Functions of One Federal Reserve Bank by Another. Any Federal Reserve Bank or branch, either as agent or in its own right, is authorized to perform temporarily any or all operations and functions of any other Federal Reserve Bank or branch which is unable to perform its operations and functions effectively as a result of an attack; provided, that the Board of Governors shall be notified as soon as practicable of any action taken pursuant to this Section; provided further, that such temporary performance

of operations and functions shall cease when the cause of disability has been removed.

Section 7. Distribution of Currency and Coin. Each Federal Reserve Bank is authorized and directed to impose such restrictions and to take such measures as it may deem necessary to assure the effective and equitable use in the public interest of all available supplies of currency and coin. Each Federal Reserve Bank is authorized to designate selected commercial banks to act as emergency Cash Agents for the distribution of currency and coin.

Section 8. Collection of Cash Items and Noncash Items. (a) Each Federal Reserve Bank is authorized and directed to prescribe such emergency rules and instructions as it may deem necessary to facilitate the receipt and collection of checks, other cash items, and noncash items, including those which cannot be presented due to transportation difficulties and those drawn on destroyed or inoperable banks. Each Federal Reserve Bank is authorized to designate selected commercial banks, clearing house associations, or other facilities to act as emergency Check Agents for the receipt and collection of checks, other cash items, and noncash items.

(b) The provisions of the Board's Regulations J and G shall continue to apply to the receipt and collection of checks, other cash items, and noncash items received by or on behalf of any Federal Reserve Bank, except to the extent that any Federal Reserve Bank by such emergency rules and instructions may otherwise provide as necessary or desirable in the circumstances then existing.

Section 9. Discounts and Advances. (a) The provisions

of the Board's Regulation A, Advances and Discounts by Federal Reserve Banks, shall continue to apply to the making of discounts or advances immediately following an attack; except to the extent and for the period that the results of an attack make necessary or desirable the use of the emergency measures described in this Section for the continuance of banking operations in the national interest.

(b) Federal Reserve Banks will make credit available to both member and nonmember banks; provided, that Federal Reserve Banks are authorized to restrict credit to any bank which willfully violates the Emergency Banking Regulations of the Secretary of the Treasury. In making credit available as authorized in this Regulation, considerations of formality of contract, security, and maturity of advances should be regarded as secondary to the problem of meeting the obvious essential needs of banks operating in conformance with the Treasury's Emergency Banking Regulation. Federal Reserve Banks are authorized to make credit available to individuals, partnerships, and corporations when credit for essential purposes is not otherwise available on reasonable terms.

(c) Federal Reserve Banks are authorized to make advances to any member or nonmember bank and to nonbank customers for such period or periods as the Reserve Bank may deem appropriate, (1) on the secured or unsecured promissory note of the borrower, or (2) in accordance with the general terms (other than amount) of lines of credit established with the borrower either preattack or postattack, or (3) by honoring overdrafts on the reserve accounts of member banks, or (4) by honoring overdrafts on the clearing accounts

of nonmember banks.

(d) Federal Reserve Banks are authorized to rely on the borrower's statement that it owns identified unencumbered assets acceptable for discount or as security for advances, that such assets are physically unavailable as a result of an attack, and that the borrower will hold such assets in trust for the Reserve Bank pending the physical delivery of such assets to the Reserve Bank.

(e) Credit extended by Reserve Banks to banks in the immediate postattack period should carry the same discount rate that prevailed preattack; credit extended to nonbank customers should be at rates deemed appropriate under the circumstances by Reserve Banks.

Section 10. Purchases, Sales, and Pledges. (a) Federal Reserve Banks are authorized, subject to the provisions of Section 12A of the Federal Reserve Act, and the provisions of Resolution of Federal Open Market Committee Authorizing Certain Actions by Federal Reserve Banks during an Emergency, (1) to purchase, at prices slightly below those on comparable maturities of securities just prior to the attack, and to sell U. S. Government securities on their own account and to make such transactions with bank and nonbank customers, (2) to buy and sell due bills for direct obligations of the United States, and (3) to pledge such due bills or notes secured by such due bills as collateral for Federal Reserve notes.

(b) Federal Reserve Banks are authorized to rely on the

seller's or pledgor's statement that it owns identified unencumbered assets which are the subject of purchase, repurchase, sale, or pledge, that such assets are physically unavailable as a result of an attack, and that the seller or pledgor will hold such assets in trust for the Reserve Bank pending the physical delivery of such assets to the Reserve Bank.

Section 11. Reserves. (a) Each Federal Reserve Bank is authorized to reduce or disregard its gold certificate reserve requirement when necessary due to the extension of Federal Reserve credit pursuant to the provisions of this Regulation. The Board of Governors shall be notified as soon as practicable of a reduction of reserve ratio below 25 per cent.

(b) The Federal Reserve Banks are authorized (1) to raise or lower reserve requirements for member banks without regard for provisions of existing statutes and regulations, and requirements may be varied according to regions or types of banks in the light of changes in reserve balances; (2) to require reports from nonmember banks for the purpose of determining whether conditions warrant the extension of reserve requirements to nonmember banks; (3) to extend reserve requirements when conditions warrant to nonmember banks; and (4) to waive penalties on deficient reserves; provided, that authority under Section 11 shall terminate as soon as postattack conditions permit the Board to resume such authority.

Section 12. Fiscal Agency Operations. Each Federal Reserve Bank is authorized to take such action as fiscal agent of the United States as authorized by the Secretary of the Treasury, and

to take such action as fiscal agent of any other agency as may be authorized by such agency.

Section 13. Temporary Appointments. (a) The president or officer in charge of any Federal Reserve Bank is authorized to make temporary appointments of officers without regard to the standing policy on outside business connections, when necessary as a result of an attack, and to pay them salaries consistent with the established salary scale of such Reserve Bank.

(b) The Federal Reserve Agent or an Assistant Federal Reserve Agent is authorized to make temporary appointments of Acting Assistant Federal Reserve Agents when necessary as a result of an attack. In the event neither the Federal Reserve Agent nor an Assistant Federal Reserve Agent is available, the board of directors of the Reserve Bank is authorized to make such appointments, and, if the board is unavailable, the president or officer in charge of the Reserve Bank is authorized to make such appointments. Each Reserve Bank is authorized to pay such Acting Assistant Federal Reserve Agents salaries consistent with the salary scale for the Assistant Federal Reserve Agent and Alternate Assistant Federal Reserve Agent at that Reserve Bank.

Section 14. Authorization to Directors, Officers, and Employees. (a) Any action authorized or required to be taken by a Federal Reserve Bank or other banking institution or its management pursuant to this Regulation may, in the absence of persons authorized by delegation or otherwise to take such action, be taken by any director, officer, or employee of such institution at the

time conducting that part of the affairs of the institution to which such action relates.

(b) Notwithstanding any other provision of law, no banking institution, nor any director, officer, or employee thereof, nor any employee of the Board of Governors of the Federal Reserve System shall be subject to any liability on account of any action taken or omitted to be taken in good faith pursuant to this Regulation; provided, that this exculpation shall not apply to any liability on account of any contractual obligation undertaken pursuant to any provision of this Regulation.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(SEAL) (Signed) Merritt Sherman
Secretary

Washington, D. C.

January 15, 1962.

Item No. 3
1/15/62

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
EMERGENCY REGULATION NO. 2

Use of Secured Notes to Transfer Credits

Section 1. Authority. This Regulation is issued pursuant to authority conferred upon the Board of Governors of the Federal Reserve System by the Federal Reserve Act (38 Stat. 251), as amended, by Section 5(b) of the Trading with the Enemy Act of October 6, 1917, (40 Stat. 415), as amended, by Delegation Order, January 10, 1961, from the Secretary of the Treasury to the Board, and by Emergency Banking Regulation No. 1, January 10, 1961, issued by the Department of the Treasury.

Section 2. Time of Taking Effect. This Regulation shall be effective immediately after an attack on the United States.

Section 3. Issuance of Promissory Notes. (a) Whenever the aggregate amount due to any banking institution from other banking institutions (including Federal Reserve Banks) has been seriously reduced as a result of abnormal withdrawals or transfers occasioned by circumstances resulting from an attack and such institution is unable to obtain a loan or to sell securities on reasonable terms, and whenever the management of such institution concludes that, as a result of the foregoing, it will be unable to meet foreseeable demands for withdrawals, transfers, or other payments not involving disbursement of cash, such institution is hereby authorized to effect such payments to banking institutions by means of its demand promissory notes, which shall be negotiable, payable only

to the order of a Federal Reserve Bank or other banking institution and secured by an equal par value amount of direct obligations of the United States owned by such institution and not otherwise pledged.

(b) The notes described in paragraph (a) shall not bear interest, except that during the time such notes are held by a Federal Reserve Bank, they shall bear interest at a rate of one per cent per annum above the Federal Reserve Bank rate currently applicable to discounts of ninety-day commercial paper for member banks.

(c) The collateral security described in paragraph (a) shall be held in trust as security for the payment of said notes whether or not the banking institution issuing said notes has physical possession of such securing obligations. Such notes shall contain the following notation on their face -

"Issued pursuant to Emergency Regulation No. 2 of the Board of Governors of the Federal Reserve System, and secured by $___ par value of direct obligations of the United States owned by this banking institution and held in trust as security for payment of the amount due hereon."

(The dollar amount to be inserted will correspond to the actual dollar amount shown to be due on the face of the note.)

(d) The issuance of said notes containing the notation described in paragraph (c) will, as an incident thereto, automatically effect a declaration of trust of an equivalent amount of direct obligations of the United States owned by the issuing banking institution and not otherwise pledged, and the holder of said notes will be entitled to a lien thereon and preferential payment

out of the proceeds thereof notwithstanding any other provisions of law, except that such lien and preference shall be subordinate to the rights of a bona fide purchaser or of any holder in due course of such direct obligations of the United States.

Section 4. Receipt of Notes as Payment or for Credit. (a) Notes issued pursuant to this Regulation shall be accepted by all banking institutions as payment by the issuers and, when offered by an issuing depositor, shall be honored by any such institution by credit at par to the account of the depositor.

(b) Notes issued pursuant to this Regulation and transferred by a banking institution to a Federal Reserve Bank shall be deemed to have been endorsed without recourse by such banking institution, and such notes shall be accepted by a Federal Reserve Bank as payment by another banking institution and, when deposited with any Federal Reserve Bank by a banking institution, immediate credit at par shall be given therefor to the account of such depositor.

Section 5. Segregation of Securing Obligations. (a) If the issuing banking institution has physical possession of the United States obligations securing the notes issued, such obligations shall be segregated from other securities in its assets and earmarked, and proper records shall be maintained as to what notes are secured thereby.

(b) If the United States obligations are held by another banking institution for safekeeping, the same records shall be maintained by the issuing banking institution and the safekeeping

institution shall be notified as soon as possible as to what United States obligations to segregate from other securities that may be held for the issuing bank. The safekeeping institution shall segregate such designated United States obligations and maintain appropriate records thereof.

(c) In the event that obligations securing notes issued by a banking institution pursuant to this Regulation are physically inaccessible because of circumstances occasioned by an attack, such obligations shall be segregated as required by this Section as soon as practicable.

Section 6. Records to be Kept. A detailed record of notes so drawn shall be maintained. The following general ledger entries are required:

(a) Credit special liability account "Notes secured by par value amount of direct obligations of the United States" with amount issued each day. Offsetting entries normally will be charged against depositors' accounts.

(b) Credit United States obligations with amount of notes issued each day.

(c) Debit special general ledger asset account "United States obligations pledged against own notes" with amount of notes issued each day.

Section 7. Payment. When the notes are presented by a Federal Reserve Bank or other banking institution to the issuer for payment, they shall be paid by the issuer if it has in the meantime been able to borrow funds or has been able to liquidate assets in

an amount sufficient to provide the necessary funds. If this has not been accomplished, payment of the notes will be effected at the earliest date such action becomes possible.

Section 8. Limitation on Use of Procedure. The procedure herein authorized may be placed in effect by a banking institution only if its management concludes that there is a definite need for such procedure and shall be discontinued as soon as funds have become available.

Section 9. Limitation on Aggregate Amount. No banking institution shall issue notes under this authorization in an aggregate amount exceeding the par value of direct obligations of the United States owned by it and otherwise unpledged.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(SEAL) (Signed) Merritt Sherman
Secretary

Washington, D. C.

January 15, 1962.

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

Item No. 4
1/15/62

January 25, 1962.

Dear Sir:

Enclosed herewith for your records are executed copies of Emergency Regulations Nos. 1 and 2, as approved by the Board of Governors of the Federal Reserve System. Emergency Regulation No. 1 relates to Operations of Federal Reserve Banks, while Emergency Regulation No. 2 relates to Use of Secured Notes to Transfer Credits. As stated in the respective Regulations, they will be effective immediately after an attack on the United States.

As you will recall, these Regulations, in draft form, were the subject of discussion by the Conference of Presidents of the Federal Reserve Banks at its meeting on December 4, 1961.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS