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Minutes for March 22, 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	<u><i>M</i></u>
Gov. Mills	<u><i>[Signature]</i></u>
Gov. Robertson	<u><i>R</i></u>
Gov. Balderston	<u><i>CCB</i></u>
Gov. Shepardson	<u><i>[Signature]</i></u>
Gov. King	<u><i>[Signature]</i></u>
Gov. Mitchell	<u><i>[Signature]</i></u>

Minutes of the Board of Governors of the Federal Reserve System  
on Thursday, March 22, 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. King

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Miss Carmichael, Assistant Secretary  
Mr. Fauver, Assistant to the Board  
Mr. Cardon, Legislative Counsel  
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. Johnson, Director, Division of  
Personnel Administration  
Mr. Kelleher, Director, Division of  
Administrative Services  
Mr. Shay, Assistant General Counsel  
Mr. Conkling, Assistant Director, Division  
of Bank Operations  
Mr. Goodman, Assistant Director, Division  
of Examinations  
Mr. Smith, Assistant Director, Division of  
Examinations  
Mr. Leavitt, Assistant Director, Division  
of Examinations  
Mr. Potter, Senior Attorney, Legal Division  
Mr. Young, Senior Attorney, Legal Division  
Mr. Fuerth, Attorney, Legal Division  
Mr. Langham, Chief, Call Report Section,  
Division of Bank Operations

Items circulated or distributed to the Board. The following  
items, which had been circulated or distributed to the Board and copies  
of which are attached to these minutes under the respective item  
numbers indicated, were approved unanimously:

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	<u>Item No.</u>
Letter to Morgan Guaranty International Finance Corporation, New York, New York, granting consent to the purchase of shares of Peruano-Suiza de Fomento e Inversiones Sociedad Anonima, Lima, Peru.	1
Letter to Peoples and Union Bank, Lewisburg, Tennessee, approving an investment in bank premises.	2
Letter to the Executive Vice Chairman of The President's Committee on Equal Employment Opportunity regarding designation of a Contracts Compliance Officer and a Deputy Contracts Compliance Officer to carry out the policies covered in Part III of Executive Order 10925.	3

In connection with Item No. 3, it was understood that the Board would not issue separate regulations relating to nondiscrimination in contracts but that its procurement activities would be carried on in accordance with provisions of Executive Order 10925 and the Government Contract Employment Rules and Regulations of The President's Committee on Equal Employment Opportunity. Those rules and regulations were designed to promote and insure equal opportunity for all qualified persons employed or seeking employment on Government contracts, without regard to race, color, creed, or national origin.

Messrs. Goodman and Young then withdrew from the meeting.

Board's seal. There had been circulated a memorandum from Mr. Sherman dated March 13, 1962, with reference to the Board's seal. It was noted in the memorandum that with the exception of the seal especially designed for the Federal Reserve Bulletin no change had been made in the Board's seal to reflect the admission of Alaska and Hawaii to statehood in 1959.

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As outlined in the memorandum, the first reference to an official seal of the Board appeared in Article V of the By-Laws of the Federal Reserve Board, as adopted on August 26, 1914. On August 21, 1935, the Board authorized preparation of a revised seal to reflect the change in the name of the Federal Reserve Board to the Board of Governors of the Federal Reserve System. After consultation with the architect for the Board's new building, detailed drawings of a proposed revised seal were prepared and on January 7, 1936, the Board adopted as its official seal a design that had been prepared by the Bureau of Engraving and Printing. This seal differed from the original seal in a number of respects, including the addition of 48 stars to the outside rim. Prior to the adoption of the new format for the Federal Reserve Bulletin in January 1956, an artist designed a special seal for use on the title page of that publication. The seal, which varied somewhat from the official 1936 design, was patterned after the two bronze seals imbedded in floors of the Board building. Late in 1961 the Bulletin seal was redrawn to include 50 rather than 48 stars; the revised seal had appeared on the December 1961 and subsequent issues of the Bulletin and on the Board's 1961 Annual Report and Rules of Organization and Procedure.

The following recommendations were contained in the memorandum:

- (1) That no change be made in the bronze seals imbedded in the floors outside the Board Room and in the Constitution Avenue lobby. These seals differ somewhat in design from the official 1936 seal, and the 48 stars in them symbolize

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the number of States in the Union at the time the System was organized and the Board building was occupied. They have an historic significance similar to that of the System map in the Board Room. Making no change in the bronze seals would be consistent with earlier decisions not to change the Board Room map to reflect such items as the discontinuance of the Spokane Branch and the Savannah Agency or changes in branch territories.

- (2) That the official seal of the Board be changed to conform in all respects to the design of the Bulletin seal as redrawn in 1961. By following this procedure the admission of Alaska and Hawaii to statehood would be recognized appropriately in a uniform seal used currently on official documents and on letterheads, envelopes, publications, etc., widely distributed in all parts of the world. Since there is little likelihood of any further increase in the number of States in the foreseeable future, it is reasonable to expect that the revised seal could be used for an indefinite period.

It was estimated that the total cost involved in changing the seal, including the necessary steel dies, would be about \$500. No provision had been made in the 1962 budget for this expenditure.

After Mr. Sherman had commented on the two recommendations, as set forth in the memorandum, they were approved unanimously.

Mr. Kelleher then withdrew from the meeting.

Report on competitive factors (Jersey City, New Jersey). Under date of March 13, 1962, there had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of Bergen Trust Company of New Jersey, Jersey City, New Jersey, into The First National Bank of Jersey City, also of Jersey City.

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After the addition of a sentence to the conclusion of the report had been suggested by Governor Robertson and agreed upon, the report was approved unanimously for transmittal to the Comptroller in a form in which the conclusion read as follows:

The proposed merger would not increase the deposit volume size of First National to any significant extent but would give it another office in a good location to bring increased competition to other Jersey City banks. However, as noted in the body of this report, First National Bank is already the largest bank in both Jersey City and Hudson County, holding 33.2 per cent of total IPC deposits in the city and 28.3 per cent of total IPC deposits in the county. Competition between two banks now competing directly with each other would be eliminated if the proposed merger is consummated.

Report on competitive factors (Seattle-Pasco, Washington). Under date of March 14, 1962, there had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of Mid-Columbia Bank of Pasco, Pasco, Washington, with and into Peoples National Bank of Washington in Seattle, Seattle, Washington.

The report, which contained the following conclusion, was approved unanimously for transmittal to the Comptroller:

There is virtually no competition between the participant banks. The proposed merger would have little effect on the competitive banking situation in the Seattle area or in the State of Washington, where Peoples National Bank now holds less than 8 per cent of both deposits and loans of commercial banks. However, competition in the Pasco-Kennewick community would be increased, possibly to the detriment of Tri-Cities National Bank, Pasco, the remaining independent bank in the area. The proposed merger would continue the trend toward concentration of banking resources in Washington, a State where three banks now control about 61 per cent of commercial bank deposits.

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Mr. Potter then withdrew from the meeting.

Request for a survey of chain banking (Item No. 4). Pursuant to the understanding at the Board meeting on March 12, 1962, there had been distributed a revised draft of reply to a letter from Chairman Patman of the House Select Committee on Small Business which expressed interest in having a survey made of chain banking in order to round out the picture of banking concentration in the United States and requested that there be obtained from each member bank detailed information regarding stockholdings and loans that might be used to control a chain of banks.

The draft of reply would indicate that, for reasons stated, the Board did not feel that it would be justified in making the survey for its own needs. The reply would also state, however, that if Chairman Patman felt that the survey would be of significant value to the Small Business Committee, the Board would be glad to proceed with it as a service to the Committee.

In discussion, changes in the wording of the letter, particularly the final paragraph, were suggested and agreed upon, after which unanimous approval was given to a letter in the form attached as Item No. 4.

It was noted that at the time the original draft of reply to Chairman Patman was distributed to the Board, a proposed letter asking the Comptroller of the Currency if his Office would wish to join in the

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survey had also been distributed. Question was raised whether such a letter should be sent to the Comptroller at this time.

Governor Robertson inquired whether it would be feasible from a technical standpoint to make the survey without the participation of the Comptroller, should the latter not care to participate, and the staff response indicated that this could be done. Governor Robertson then expressed the view that it would be preferable to defer sending a letter to the Comptroller until after the Board had heard whether Chairman Patman wished to have the Board proceed with the survey, and there was general agreement with this view.

Messrs. Cardon, Conkling, and Langham then withdrew from the meeting.

Application of Peru Trust Company. There had been distributed a memorandum from the Division of Examinations dated March 14, 1962, recommending favorably on an application by The Peru Trust Company, Peru, Indiana, for consent to merge with Farmers State Bank, Mexico, Indiana, and for permission to establish a branch at the present location of Farmers State Bank.

At the Board's request, Mr. Leavitt made a statement regarding the facts of the case and the reasons underlying the recommendation of the Division of Examinations, his comments being based substantially on the information presented in the March 14 memorandum.

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In the ensuing discussion, all of the members of the Board indicated that they would favor the proposed transaction. Accordingly, the application was approved unanimously, with the understanding that the Legal Division would draft an order and a supporting statement for the Board's consideration.

Messrs. Shay, Leavitt, and Fuerth then withdrew from the meeting.

Trading account of Reserve Bank employee. There had been distributed a memorandum from the Division of Examinations dated February 27, 1962, which supplemented material circulated with that Division's memorandum of December 29, 1961, relevant to the examination of the Federal Reserve Bank of Boston as of October 30, 1961.

It was pointed out in the February 27 memorandum that in the course of the examination of the Boston Reserve Bank there came to the attention of the examiner the case of a research employee who had been engaging in transactions in securities and/or commodities that appeared speculative in character. At the time of the examination, the matter was reviewed with President Ellis and General Auditor Lacks. It was learned from them that the employee involved had been asked to discontinue his commodity dealings. However, his trading in stocks apparently was not considered objectionable.

The rules applicable to the Board's staff contain a provision that "No member of the staff shall engage in speculative dealings (as distinguished from investment) in securities, commodities, real estate, money, exchange, etc." However, the Board's letter of March 24, 1948

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(S-1018), commenting on ethical considerations applicable to Reserve Bank employees did not refer specifically to speculative dealings, although these might be construed to come under the general principle stated in that letter, as follows: ". . . it is important that officers and employees of a Federal Reserve Bank refrain from being placed in any position which might embarrass the Federal Reserve Bank in the conduct of any of its operations or result in any questions being raised as to the independence of their judgment or their disinterestedness in the discharge of their official responsibilities or their ability to perform satisfactorily all of the duties of their positions."

It was suggested in the memorandum that if the Board should consider it inappropriate for a Reserve Bank employee to maintain a stock trading account, it might wish to call the matter to the attention of President Ellis. On the broader question whether the Board should endorse or advocate a code of conduct applicable to officers and employees of the Reserve Banks, it was suggested that the Board might wish, through revision of S-1018 or otherwise, to amplify the general principles expounded in that letter by expressing its views with regard to several areas of activity in which a question of propriety might arise. In that connection, specific reference might be made to speculative dealings in securities, commodities, and real estate.

After Mr. Solomon had commented on the information contained in the February 27 memorandum, Governor Mills stated that he would favor

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advising President Ellis that the Boston Reserve Bank employee should discontinue the maintenance of a stock trading account. Also, he thought that a letter might be sent to all Reserve Banks giving System-wide notice that the Board did not consider it appropriate for Reserve Bank employees to trade in margin accounts.

Governor Robertson expressed general agreement, but indicated that he would prefer to reserve final judgment on the sending of a letter to all Reserve Banks until after a letter had been drafted for review by the Board.

Governor King stated that he did not feel that the Reserve Bank employee in question should continue his margin account activities. As to the procedure that might most appropriately be followed in dealing with this general subject, he was not entirely certain at this point.

In further discussion, Mr. Johnson noted that heretofore the general approach had been that the Board's instructions to the Reserve Banks should provide only a broad framework of reference. This involved the question whether it was desirable or feasible to try to specify particular outside activities in which Reserve Bank employees should or should not participate.

Governor Balderston said he shared that view to some extent. He thought President Ellis should be advised that the Board did not consider it appropriate for the Reserve Bank employee in question to operate a stock trading account for speculative purposes, and he would not be

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averse to the inclusion of reference to a stock trading account in a remodeled version of letter S-1018. However, he would not favor including a long list of specific activities that would be described as inappropriate. He understood that it was the practice of each Reserve Bank to obtain reports from officers and employees regarding outside activities; and if any of those activities were considered inappropriate, the matter was called to the attention of the employee concerned.

At the conclusion of the discussion, it was understood that a draft of letter to the Presidents of all Federal Reserve Banks containing a specific reference to trading in margin accounts would be prepared for consideration at a meeting when all of the members of the Board were present.

Report of examination of Boston Reserve Bank. The report of the examination of the Federal Reserve Bank of Boston made by the Board's examining staff as of October 30, 1961, had been circulated to the Board, along with the usual accompanying memoranda.

At the Board's request, Mr. Smith commented on the information disclosed by the examination. Aside from the matter discussed previously by the Board at this meeting, it was agreed that there were no matters appearing to require action on the part of the Board at this time.

All members of the staff except Messrs. Sherman and Noyes then withdrew from the meeting.

Request of Council of Economic Advisers. After discussion, the Board agreed to make the services of Robert Solomon, Assistant to the

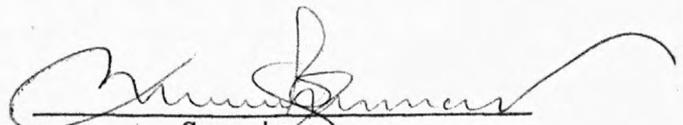
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Director, Division of Research and Statistics, available to the Council of Economic Advisers for such time as needed during the next nine months, on a nonreimbursable basis, to serve as executive secretary to an interagency group to be appointed by the President to study recommendations of the Commission on Money and Credit dealing with the nature and scope of Government regulations concerning reserves, portfolios, interest rates, and competition.

The meeting then adjourned.

Secretary's Note: Acting in the absence of Governor Shepardson, Governor Robertson today approved on behalf of the Board a letter to the Federal Reserve Bank of New York (attached Item No. 5) approving the appointment of Eugene A. Gallucci as assistant examiner.



Secretary

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

Item No. 1  
3/22/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 22, 1962

Morgan Guaranty International  
Finance Corporation,  
23 Wall Street,  
New York 8, New York.

Gentlemen:

In accordance with the request and on the basis of the information furnished in your letters of January 29 and February 8, 1962, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants its consent for Morgan Guaranty International Finance Corporation to purchase and hold 5,000 ordinary shares, par value Peruvian Soles 1,000 each, of the capital stock of Peruano-Suiza de Fomento e Inversiones Sociedad Anonima, ("Peruinvest"), Lima, Peru, at a cost of approximately US\$207,150, provided such stock is acquired within one year from the date of this letter.

The Board's consent is granted upon condition that your Corporation shall dispose of its holding of stock of the Peruvian corporation, as promptly as practicable, in the event that the Peruvian corporation should at any time (1) engage in issuing, underwriting, selling or distributing securities in the United States; (2) engage in the general business of buying or selling goods, wares, merchandise, or commodities in the United States or transact any business in the United States except such as is incidental to its international or foreign business; or (3) conduct its operations in a manner which, in the judgment of the Board of Governors of the Federal Reserve System, is inconsistent with Section 25(a) of the Federal Reserve Act or regulations thereunder.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

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

Item No. 2  
3/22/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 22, 1962

Board of Directors,  
Peoples and Union Bank,  
Lewisburg, Tennessee.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Atlanta, the Board of Governors of the Federal Reserve System approves, under Section 24A of the Federal Reserve Act, an investment in bank premises by Peoples and Union Bank of \$165,500.

The amount approved includes \$8,500 carried in Other Real Estate, the proposed investment of \$47,000 for construction of the branch building, and \$110,000 for construction of a head office building.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 3  
3/22/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 22, 1962

Mr. Jerry R. Holleman,  
Executive Vice Chairman,  
The President's Committee on  
Equal Employment Opportunity,  
Washington 25, D. C.

Dear Mr. Holleman:

Pursuant to provisions in Executive Order 10925 and in the Government Contract Employment Rules and Regulations of The President's Committee on Equal Employment Opportunity, the Board has designated Mr. Joseph E. Kelleher, Director, Division of Administrative Services, as Contracts Compliance Officer to carry out the policies covered in Part III of the Executive Order. His office is in the Board's building and he may be reached by telephone at Republic 7-1100, extension 247, or dial code 147, extension 247.

Mr. Harry E. Kern, Assistant Director, Division of Administrative Services, has been designated as Deputy Contracts Compliance Officer. His office is also located in the Board's building and his telephone extension is 249.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.





BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 4  
3/22/62

OFFICE OF THE CHAIRMAN

March 22, 1962.

The Honorable Wright Patman, Chairman,  
Select Committee on Small Business,  
House of Representatives,  
1136 New House Office Building,  
Washington 25, D. C.

Dear Mr. Chairman:

This refers to your letter of February 19, 1962, stating that you are interested in having a survey made of chain banking in order to round out the picture of banking concentration in the United States and requesting that there be obtained from each member bank detailed information concerning stockholdings and loans that might be used to control a chain of banks.

Enclosed is a draft of a questionnaire prepared by our staff which might be used to obtain the basic information suggested in your letter. Before going ahead with this project, however, we should appreciate receiving your comments about several reservations that have arisen as a result of preliminary discussions of this matter.

The project you suggest would involve about 6,100 member banks, and it is estimated that the returns from the proposed questionnaire would result in about 120,000 cards for stockholders, about 80,000 cards for officers and directors, and an unknown but relatively small number of collateral loan cards, perhaps 1,000 to 2,000.

Because of its size, the project would have to be mechanized and would involve alphabetical keypunching which would require key-verifying. Neither the Board nor any Reserve Bank has the facilities for key-verification of a large number of punch cards and the keypunching and verification would have to be contracted for with an outside service bureau at an estimated cost of around \$18,000.

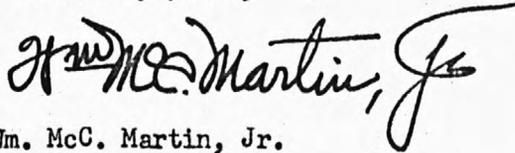
The Honorable Wright Patman

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After completion of the punching and verification part of the project, there would be sizable problems in any attempt to correlate the names of individuals that appear on the lists of stockholders, directors, officers, and collateral loans. For example, family holdings of stock may be shown under the names of various members of the family listed at different addresses.

For these reasons, the Board does not feel that it would be justified in making this survey for its own needs. If, however, the survey would be of such value to the Small Business Committee as to warrant the necessary expenditure of time and money that would be required, the Board will, of course, proceed promptly with the survey.

Sincerely yours,

A handwritten signature in cursive script that reads "Wm. McC. Martin, Jr." The signature is written in dark ink and is positioned above the typed name.

Wm. McC. Martin, Jr.

Enclosure

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

Item No. 5  
3/22/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 22, 1962

CONFIDENTIAL (FR)

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

Dear Mr. Crosse:

In accordance with the request contained in your letter of March 13, 1962, the Board approves the appointment of Eugene A. Gallucci as an assistant examiner for the Federal Reserve Bank of New York. Please advise the effective date of the appointment.

It is noted that Mr. Gallucci is indebted to, and owns 12 shares of stock of State Bank of Rahway, Rahway, New Jersey, a nonmember bank. Accordingly, the Board's approval of Mr. Gallucci's appointment is given with the understanding that he will not participate in any examination of that bank until his stock has been disposed of and his indebtedness has been liquidated.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

