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Minutes for June 27, 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

Handwritten initials and signatures for each board member, written over horizontal lines. The initials are: a circled 'M' for Martin, a large stylized signature for Mills, 'R' for Robertson, 'CCB' for Balderston, 'Shep' for Shepardson, 'King' for King, and 'M' for Mitchell.

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, June 27, 1962. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman  
 Mr. Balderston, Vice Chairman  
 Mr. Robertson  
 Mr. Shepardson  
 Mr. King  
 Mr. Mitchell

Mr. Sherman, Secretary  
 Miss Carmichael, 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. Kiley, Assistant Director, Division of Bank Operations  
 Mr. Goodman, Assistant Director, Division of Examinations  
 Mr. Thompson, Assistant Director, Division of Examinations  
 Mr. Potter, Senior Attorney, Legal Division  
 Mr. Thompson, Review Examiner, Division of Examinations

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

	<u>Item No.</u>
Letter to Chemical International Banking Corporation, New York, New York, granting consent for Bank of Liberia, Inc., Monrovia, Liberia, to establish a mobile banking unit in Liberia.	1

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Item No.

Letter to the Federal Reserve Bank of Dallas approving the appointment of Linwood F. Moss as Federal Reserve Agent's Representative at the Houston Branch.

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Mr. Goodman then withdrew from the meeting.

Federal Reserve Bank budget procedures. Pursuant to the understanding at the Board meeting on April 11, 1962, a letter was sent on April 16, 1962, to the Chairman of the Conference of Presidents of the Federal Reserve Banks enclosing a copy of a memorandum from Mr. Farrell, dated March 20, 1962, which discussed possibilities for simplifying and improving procedures under which Reserve Bank budgets were compiled and submitted to the Board. In the letter the views of the Conference of Presidents with respect to five specific proposals were requested.

A memorandum from Mr. Farrell, dated June 25, 1962, reported that the Conference of Presidents at a meeting on June 18, 1962, adopted the following recommendations of its Subcommittee on Accounting for revisions in the procedures for preparing and submitting Reserve Bank budgets:

1. Submission of budgets either by departments or by functions.
2. Submission of two budgets each year, one covering the period January 1-June 30 and the other covering the period July 1-December 31.

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3. Comparisons of budget estimates with actual expenses for the same period one year ago.
4. A budget report form showing by departments or functions the average number of employees and total expenses for the base period and for the budget period, and the amount and percentage change in expenses.
5. Limiting explanatory material accompanying the budgets to the reasons for (a) the significant developments resulting in substantial gross increases or gross decreases in departmental or functional expenses, and (b) changes in the number of employees in Grade 12 and above experienced in the budget period, as compared with the number of such employees on the last day of the base period.
6. Elimination of the budget experience reports.

Mr. Farrell recommended that the Board adopt these proposals, which were similar in most respects to those set forth in his March 20 memorandum that had been sent to the Presidents on April 16. The most significant difference was that the March 20 memorandum proposed that all budgets be submitted by departments, whereas the Conference recommended that individual Reserve Banks determine whether to submit their budgets by departments or by functions. The Presidents' recommendations also suggested that the budget periods cover six months starting January 1 and July 1, whereas the March 20 memorandum proposed six-month periods starting April 1 and October 1.

Mr. Farrell also recommended in his June 25 memorandum that the Reserve Bank budgets for the period January 1-June 30 be submitted to reach the Board by November 22, and the budgets for the period July 1-December 31 be submitted by May 22.

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In view of the proposed new procedures requiring two budgets each year, the Presidents' Conference had raised a question as to whether the Board might wish to re-examine the practice of having annual conferences between a committee of the Board and the individual Reserve Bank Presidents prior to submission of their budgets. Mr. Farrell suggested that, in lieu of changing the present procedures and requiring conferences twice a year, the Board might consider a procedure under which each Reserve Bank President would meet with a committee of the Board during the latter part of the calendar year, at which time there would be a discussion of officer salaries and any major changes contemplated in Reserve Bank programs, including sizable building projects, but with no intention of an over-all budget review.

With respect to the Presidents' proposal for submitting budgets on either a functional or a departmental basis, Mr. Farrell said that this would mean that the budget of one Reserve Bank could not be readily compared with that of another Reserve Bank, but he did not consider this to present a problem. As to the meetings of Reserve Bank Presidents and a committee of the Board for preliminary budget discussions, he noted that there had been some feeling on the part of the Presidents that these annual conferences had served a useful purpose but had become somewhat burdensome. This had occurred because some of the Presidents felt that they should have in their

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hands a complete set of their budget figures before meeting with the Board committee, a practice that had resulted in considerable additional work for the Reserve Banks concerned. Mr. Farrell said that Mr. Johnson believed that it would be helpful for a Board committee to continue the practice of discussing officer salaries with the Presidents at least once a year in advance of budget submissions, and it was thought that at the same time there could be a discussion of any major changes contemplated in operating procedures.

Chairman Martin suggested that the matter of meetings of individual Reserve Bank Presidents with a Board committee for the purpose of discussing officer salaries be discussed later today in executive session; he then invited comments on any of the other proposals for changes in budget procedures.

Governor Mitchell inquired as to the option for submission of budgets either by functions or by departments, suggesting that they be encouraged to report by departments.

Mr. Farrell responded that this would be his preference, but he felt that most of the Reserve Banks had fairly definite views on this point and that at least one or two of the Reserve Banks would definitely prefer to submit budgets by functions.

There ensued a general discussion, after which the six recommendations of the Presidents' Conference with respect to budget

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procedures were approved unanimously. Also approved was the recommendation that Reserve Bank budgets be submitted to the Board by May 22 and November 22.

It was understood that the matter of conferences of Reserve Bank Presidents with a committee of the Board prior to the preparation of budgets would be considered in executive session later in this meeting and that appropriate advice regarding the revised budget procedures would be forwarded to the Reserve Banks.

Applications of First Virginia Corporation. There had been distributed (1) a memorandum from the Division of Examinations, dated June 20, 1962, recommending approval of three applications of The First Virginia Corporation, Arlington, Virginia, under the Bank Holding Company Act to acquire 80 per cent or more of the outstanding voting shares of Farmers and Merchants National Bank, Winchester, Virginia, Southern Bank of Norfolk, Norfolk, Virginia, and Peoples' Bank, Mount Jackson, Virginia; and (2) a memorandum from the Legal Division, dated June 26, 1962, which was designed to assist the Board in its consideration of the advisability of holding a hearing or oral presentation of views in connection with the three applications.

According to the Legal Division memorandum, no objections to approval of the applications had been received and it appeared that no further proceeding was necessary for the development of primary factual information. However, certain policy questions were involved

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because of the fact that First Virginia had outstanding two classes of common stock (Class A and Class B), one of which (Class A) had only limited voting rights. It was proposed to issue additional shares of the Class A stock to shareholders of the three banks involved in exchange for their voting shares.

As pointed out in the memorandum, First Virginia's Class A and Class B stock had the same par value, essentially the same rights to dividends and upon liquidation, and thus essentially the same interest per share in the net worth of the company. The principal differences were (1) that Class A shareholders had no pre-emptive or subscription rights in additional Class B stock, and (2) that all the voting power was vested in the holders of the Class B stock except that Class A directors, voting as a class, could elect 20 per cent of the directors (but no less than one director) and could vote on any alteration to the privileges, rights, and powers given to the Class B stock.

Thus the holders of Class B stock would be in a position to avoid dilution of their voting control of the corporation. At the same time, with each acquisition financed in the manner proposed here, management's investment in the holding company (now only 43 per cent) would become less and less proportionate to its control. This situation raised a question whether the proposed issuance of Class A stock was pertinent to the Board's responsibilities in bank

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holding company applications. In order to secure more information regarding this aspect of the case, it was suggested that the Board might wish to have an opportunity to explore the matter further face to face with representatives of First Virginia. The Legal Division was of the opinion that an informal oral presentation proceeding rather than a formal hearing would adequately afford such an opportunity since the matter was one of administrative judgment rather than a means of ascertaining facts. Such a proceeding would also afford the Board an opportunity to inquire further into other aspects of the merits of the proposal.

Chairman Martin commented that, while he was not prepared to vote on the applications today, he believed that it was desirable to have the views of the staff as to the advisability of having an oral presentation.

In commenting on the matter, Mr. Solomon said it appeared that the principal question in connection with the three applications was that involving the proposal of First Virginia to issue limited voting shares of stock to the shareholders of the three banks. It was the view of the Division of Examinations that questions relating to this subject would not be particularly susceptible to public discussion and, therefore, if any presentation were scheduled, it was thought that it should be closed to the public.

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Mr. Solomon recalled that, on the most recent occasion on which the Board considered an application of First Virginia, the Class B stockholders, with about 50 per cent of the company's stock, had control of the holding company. Since that time one of the banks in the First Virginia group had absorbed another bank, giving in exchange limited voting stock in the company, thereby further increasing the number of Class A stockholders. As a result, Class B stockholders, with about 43 per cent of the stock, were now in control. If First Virginia were to acquire the additional three banks, Class B stockholders would then have only about 25 per cent of the stock but they would continue to elect 80 per cent of the directors.

Mr. Solomon commented that, as had been pointed out in the June 26 memorandum from the Legal Division, the question here was what interest, if any, the Board should take with reference to the proposed issuance of stock. Perhaps the Board should take the position that the matter was of no concern to it as long as disclosure was made to the stock purchasers. On the other hand, maybe the Board should look at the proposal more critically, having in mind it would have an effect on the character of management. If the Board took that position, then there was a question as to the point at which the Board should draw the line and advise the company that it could go no further in the issuance of limited voting stock.

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Chairman Martin then asked if any members of the Board favored an oral presentation with respect to the three applications.

Governor Balderston responded in the affirmative, indicating that he would favor an oral presentation confined to the subject of the proposed distribution of stock. He thought there was no need to discuss the substantive issues with the applicant.

Governor Robertson said he also favored having an oral presentation, although he did not think the discussion should be confined solely to the matter of stock distribution. For example, there was also the point as to just what purpose First Virginia was serving in getting control of banks throughout the State of Virginia and whether that control was beneficial to the public and the banking system. He believed that this question and any others that might arise should also be explored.

Mr. Hackley said he agreed with Mr. Solomon that there was little need for any public proceeding. The Legal Division was of the opinion that, if the Board had any question regarding the matter of voting control and distribution of stock, it would be desirable to have an oral presentation in order that this question might be explored further with the applicant. He noted that under the Board's Rules of Procedure any oral presentation was public unless otherwise ordered. In this case the Board could merely write to the applicant indicating the desire to have an oral

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presentation and noting that this would not be a public proceeding. Also, if desired, the principal questions that the Board would wish to have discussed at the presentation could be mentioned in the letter. If the matter of stock ownership were mentioned, this would suggest that the Board considered this question to be relevant under the Bank Holding Company Act. It was the view of the Legal Division that the question could well be relevant not only to the management factor but also to the public interest factor. Mr. Hackley mentioned that the Congress had in the past indicated a policy against stock control situations of the type proposed in this instance. If the Board decided to have an oral discussion, Mr. Hackley thought it might be preferable to hold it in the Board Room rather than in Room 1202, thus getting away from a more formal type of procedure.

Governor Mitchell inquired whether any interested party should be invited to attend any oral presentation that might be held on the applications. While he had no strong feelings in the matter, he leaned in the direction of inviting all interested parties.

Mr. Potter suggested that an oral presentation in this case might be considered more in the nature of a means to clarify information already in the Board's hands, rather than a means of securing additional information. The Board might wish to consider also inviting the three banks that First Virginia sought to acquire to be represented in order to present their views on the proposed stock

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distribution.

Chairman Martin invited comments on the problem, indicating that when the general public interest was involved in an application he leaned toward permitting any interested party to present views.

Governor Balderston stated that, on the basis of the substantive issues, he would at this time be inclined to approve the three applications if the holding company would agree to give the Class A stockholders the same voting rights as the holders of the Class B stock. He would be unwilling to vote favorably if holders of 25 per cent of the company's stock would have control of the organization. If the Board approved the three applications under consideration, it was to be expected that there would be other similar applications from First Virginia in the future and the percentage of Class B stock would decrease even further. Accordingly, he believed that now was the time to act in the direction of preventing any further distribution of Class A stock with its limited voting rights. As had been mentioned earlier, on the most recent occasion on which the Board had considered an application of First Virginia to acquire stock of a bank, the Class B stockholders held more than 50 per cent of the stock. That percentage had now dropped to 43 per cent as a result of a merger over which the Board had no control. If the Board should approve the three applications under consideration, the control of the organization would be vested

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in 25 per cent of the shareholders. The Board would be placed in a difficult situation in considering similar applications in the future where the percentage of Class B shareholders might be expected to drop even lower. He doubted that full disclosure by First Virginia to Class A stockholders of their rights under the proposal was an adequate means for handling the situation. If First Virginia should indicate a willingness to change their organization with respect to stock control, he would be inclined to approve the three applications, recognizing of course that the accomplishment of these changes would require time.

Governor Mitchell inquired as to the propriety of advising First Virginia that the Board would approve the applications if certain features of its organization were changed. Would it not be preferable for the Board to deny the applications and then let First Virginia come in with an alternative plan?

Chairman Martin then read a memorandum from Governor Mills in which the latter indicated that he did not favor an oral presentation and stated reasons why he had reached that conclusion.

Governor King inquired whether any other holding company had issued two classes of common stock, some of which carried limited voting privileges and Mr. Solomon responded that there were some similar situations but as far as he knew none of them were exactly the same as the First Virginia case.

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Mr. Hackley said that he would have reservations as to the suggestion made earlier in the discussion that the Board might approve the applications subject to First Virginia's changing its organization with regard to stock distribution and rights. In the event that the company should later fail to make a change in its organization, the Board would be faced with an enforcement problem. The Board might wish to disapprove the applications on the grounds of the stock distribution proposal as well as any other grounds that seemed appropriate. However, as had been pointed out earlier, the question of stock ownership and distribution had not previously been the basis for the Board's decisions in any other bank holding company cases and a legitimate question could be raised as to whether this matter was relevant under the Bank Holding Company Act. Accordingly, in the event of disapproval, the Board's position might be somewhat stronger if an oral presentation had been held.

Governor Balderston said he was impressed with the possibility of the Board's denying the applications and setting forth reasons in order that this holding company and others might be advised as to the Board's position on voting control through stock arrangements of this sort. In this event First Virginia would be free to challenge the Board's decision if it so desired.

After some further discussion, Chairman Martin suggested that the Board postpone further discussion of First Virginia's

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applications until July 11 when all members of the Board were expected to be present, at which time the Board could either take up the applications for action, or it could consider further the possibility of affording First Virginia some opportunity for presenting further views on the matter. There was agreement with this suggestion.

During the foregoing discussion Mr. Molony, Assistant to the Board, joined the meeting and at its conclusion Messrs. Thompson (Assistant Director, Division of Examinations), Potter, and Thompson (Review Examiner) withdrew.

Examination reports of national banks (Item No. 3). Pursuant to the understanding at the meeting on June 21, 1962, there had been distributed a draft of reply to a letter from the Comptroller of the Currency dated April 30, 1962, which informed the Board of a new schedule of charges to be made for providing Federal Reserve Banks with copies of examination reports of national and District of Columbia banks. The letter would indicate that, in view of the need for the information in the reports and the Board's reluctance to subject national banks to additional examination, the Reserve Banks would for the present and until further notice pay the Comptroller of the Currency the new schedule of charges that had been fixed by the Comptroller for each report requested. The letter would request that each Reserve Bank be furnished with only one examination report of all national banks in its district for each calendar year

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and would not request reports of trust departments or separate reports of branches. If additional reports were needed by any Reserve Bank, the Office of the Comptroller of the Currency would be so advised.

Governor Robertson, who had worked with the staff in the preparation of the letter, stated that the revised draft reflected the views of the Reserve Banks as well as the Board. After discussion, during which a number of editorial changes were suggested and agreed upon, the letter was approved unanimously. A copy is attached as Item No. 3.

Report on S. 3291 (Item No. 4). In a communication dated June 26, 1962, the Bureau of the Budget requested the Board's views on enrolled bill S. 3291, "To amend section 14(b) of the Federal Reserve Act, as amended, to extend for two years the authority of Federal Reserve Banks to purchase United States obligations directly from the Treasury."

Unanimous approval was given to a letter to the Budget Bureau recommending approval of the bill. A copy of the letter is attached as Item No. 4.

At this point all of the members of the staff except Messrs. Sherman, Hackley, and Solomon withdrew from the meeting.

Governor Robertson did not withdraw from the room, but he stated that in keeping with his previously announced position he

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would not participate in the discussion or consideration of the next matter to be taken up regarding the Board's proceeding against The Continental Bank and Trust Company, Salt Lake City, Utah.

Continental Bank and Trust Company. Mr. Hackley referred to the discussion of the Continental Bank matter at yesterday's meeting, stating that shortly after the meeting there was received from Counsel for the bank an additional motion entitled "Motion to Dismiss and Demand for Final Order." As indicated in his memorandum dated June 26, Continental moved (1) that the proceeding be dismissed because of the Board's lack of legal authority and the invalidity of its order of July 18, 1960, and (2) if this motion to dismiss was denied, that the record on the show cause hearing contain a stipulation to the effect that Continental had failed to comply with the 1960 order for the reasons above indicated and that the show cause hearing thereupon be closed, and (3) that the Board then issue a "final" order requiring Continental to surrender its Federal Reserve Bank stock and forfeit membership in the System within such reasonable time as to allow Continental to secure judicial review. Mr. Hackley noted that Board Counsel was entitled to ten days in which to file an answer or objection to this motion.

Mr. Hackley went on to say that he had no way of knowing whether Mr. Sullivan had given up the thought he had expressed to Mr. Swan on June 6 that he would like to meet with the Board to

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discuss the possibility of a settlement of the case other than by further litigation. Because of the receipt of this motion and because of some lack of certainty as to just what procedure should be followed in communicating with Mr. Sullivan along lines discussed at yesterday's meeting, no call had yet been made to Mr. Swan. Mr. Hackley said he was not quite sure at this stage whether to inform Mr. Swan that Mr. Sullivan should submit something to the Board in writing or whether he should come to Washington to meet with the Board, and if so, on what date.

Chairman Martin said that the submission of this new motion by Continental would reinforce the general thinking that he had expressed at yesterday's meeting, that is, that it was a matter for Mr. Sullivan to decide whether he wished to submit any offer of settlement as an alternative to the Board's 1960 order. In the Chairman's view, it was clear that the Board should not make any commitment with respect to the consideration it would give to such an offer, and it should not assure Mr. Sullivan that such an offer would not subsequently be placed in the record if the proceeding continued.

Mr. Hackley stated that if Mr. Sullivan wished to come to Washington there was, of course, the question of whom he would meet with. While the staff would be entirely willing to meet with Mr. Sullivan, it was his opinion that in the event Mr. Sullivan came

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to Washington it would be preferable for him to meet with the Board, and it might be preferable that members of the Board's staff who were on the adjudicatory side and who would be advising the Board in this case in the future not be present at such a meeting.

Chairman Martin said that he thought this matter should be discussed with Mr. Swan by telephone and that the important consideration was to guard against any impression being conveyed to Mr. Sullivan that the Board was in any way seeking a compromise settlement of the case. It was essential, in the Chairman's judgment, that the Board not be put in a position intentionally or otherwise where anybody could suggest that the Board had in any way solicited a settlement of this case.

The other members of the Board indicated agreement with this view.

Governor Shepardson stated that he understood this to mean that Mr. Swan would inform Mr. Sullivan along the lines the Chairman had indicated, that is, that if Mr. Sullivan wished to come to Washington and meet with the Board, the Board would be willing to meet with him but this was a decision entirely in Mr. Sullivan's hands. Further, the Board was making no commitment as to the consideration that it might give to any alternative plan or settlement and did not guarantee that an offer that might be made would not subsequently become a part of the record.

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Mr. Hackley stated that he would talk with Mr. Swan along these lines and that he would include in his comments the statement that Mr. Sullivan should look to his own legal counsel for advice as to the effect that any visit he might make to the Board would have on Continental's position in subsequent proceedings.

Chairman Martin stated that unless there was objection, it would be understood that Mr. Swan would be advised along the lines of the discussion at today's meeting.

Secretary's Note: Subsequently, after Mr. Hackley had talked with Mr. Swan, a telephone call was received by Governor Balderston from Mr. Sullivan in which arrangements were made for Mr. Sullivan to meet with the members of the Board at 11 a.m. on Monday, July 2, 1962.

Luncheons for central bankers attending annual Bank and Fund meetings. Mr. Sherman stated that the annual meetings of the International Bank for Reconstruction and Development, the International Monetary Fund, and the International Finance Corporation were scheduled to be held in Washington during the week beginning September 17, 1962, and that the Secretaries of the Bank and Fund had inquired of him as to whether the Board contemplated luncheons for visiting central bankers of the type given for them in earlier years. He said that, while there were arguments pro and con, it had been assumed that the Board would not wish to have the central bankers come to Washington on this occasion without

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some recognition by the Board of their presence in the city.

Chairman Martin stated that he thought there was no question but that the Board would wish to follow the procedure that had been followed in other recent years when the Bank and Fund meetings were held in Washington and that the most practicable arrangement was to give luncheons on two days to accommodate an attendance of around 100 representatives of other central banks, each luncheon to be followed by a chart show.

Following a discussion, it was understood that appropriate arrangements for such luncheons would be made for September 18 and 19.

All members of the staff then withdrew and the Board went into executive session. Following the meeting, the Secretary was informed that during the executive session the following actions were taken by the Board:

Appointment of Mr. Thomas as Consultant. A memorandum from the Division of Personnel Administration dated June 27, 1962, recommended (1) that Woodlief Thomas, recently retired as Adviser to the Board, be appointed as Consultant in the Offices of the Members of the Board for the period July 16-20, 1962, in order that he might appear at hearings of the Royal Canadian Commission on Banking and Finance, and (2) that he be compensated at the rate of \$75.00 a day for each day worked for the Board plus transportation expenses and a per diem allowance in accordance with the Board's travel regulations.

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It was noted that Mr. Thomas was scheduled to appear before the Canadian Commission in Ottawa for questioning and discussion incident to the paper that he prepared as Adviser to the Board and at the Commission's request.

The two recommendations were approved unanimously.

Federal Reserve Bank budget procedures (Items 5 and 6).

In a continuation of the discussion of the change in Reserve Bank budget procedures, approved earlier during this meeting, the Board discontinued, effective immediately, its Budget Committee as constituted in the past, and reconstituted it as the Committee on Organization and Building Plans, with the understanding that the function of such committee would be to meet once a year with each Reserve Bank President for the purpose of considering officer development and compensation and any contemplated changes in major Reserve Bank programs, including sizable building projects, but with no intention of over-all budget review. It was understood that, in view of the change in budget procedures agreed upon earlier during this meeting, such meetings ordinarily would be held later in the calendar year than has been customary in the past, but that if nothing seemed to require a meeting with a Reserve Bank President, such meeting need not be scheduled by the chairman of the Committee. The Secretary was also informed that the Board designated Governors Balderston, King, and Mitchell to serve as members of the Committee

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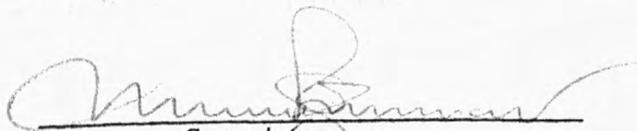
on Organization and Building Plans, with Governor Mitchell to serve as Chairman.

In accordance with this action and that taken earlier regarding the change in Reserve Bank budget procedures, a telegram in the form of attached Item No. 5 was sent to all Reserve Bank Presidents on June 29, 1962, and a letter, S-1837, dated July 13, 1962, was sent to all Reserve Bank Presidents in the form of attached Item No. 6.

Salary of President Fulton (Item No. 7). The Board approved the payment of salary to W. D. Fulton as President of the Federal Reserve Bank of Cleveland at the rate of \$40,000 per annum, effective July 1, 1962. In accordance with this action a letter dated June 27, 1962, was sent to Chairman Hall of the Cleveland Reserve Bank. A copy is attached as Item No. 7.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a letter to the Federal Reserve Bank of New York (attached Item No. 8) approving the appointment of nine employees as examiners.

  
Secretary

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

Item No. 1  
6/27/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 27, 1962

Chemical International Banking Corporation,  
20 Pine Street,  
New York 8, New York.

Gentlemen:

In accordance with your request and on the basis of the information furnished in your letter of June 7, 1962, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants its consent for Bank of Liberia, Inc., Monrovia, Liberia, to establish a mobile banking unit in Liberia, to operate primarily in the interior on the highway between Monrovia and Mt. Nimba, Liberia, a distance of approximately 175 miles.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the mobile unit begins operations.

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  
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ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 27, 1962

Mr. Robert O. Anderson,  
Chairman of the Board and  
Federal Reserve Agent,  
Federal Reserve Bank of Dallas,  
Dallas 2, Texas.

Dear Mr. Anderson:

In accordance with the request contained in your letter of June 21, 1962, the Board of Governors approves the appointment of Mr. Linwood F. Moss as a Federal Reserve Agent's Representative at the Houston Branch to succeed Mr. C. E. Purifoy, effective July 1, 1962.

This approval is given with the understanding that Mr. Moss will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of his duties, except that, during the absence or disability of the Federal Reserve Agent or a vacancy in that office, his responsibility will be to the Assistant Federal Reserve Agent and the Board of Governors.

When not engaged in the performance of his duties as Federal Reserve Agent's Representative, Mr. Moss may, with the approval of the Federal Reserve Agent and the Vice President in charge of the Houston Branch, perform such work for the Branch as will not be inconsistent with his duties as Federal Reserve Agent's Representative.

It will be appreciated if Mr. Moss is fully informed of the importance of his responsibilities as a member of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

It is noted from your letter that with the approval of Mr. Moss' appointment by the Board of Governors, he will execute the usual Oath of Office which will be forwarded to the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 3  
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OFFICE OF THE CHAIRMAN

June 27, 1962.

The Honorable James J. Saxon,  
Comptroller of the Currency,  
Treasury Department,  
Washington 25, D. C.

Dear Jim:

The Board and the Federal Reserve Banks have given further consideration to your letter of April 30 informing the Board that a new schedule of charges by your Office for providing Federal Reserve Banks with copies of reports of examination of national and District of Columbia banks would become effective on June 1, 1962. As noted in my letter to you of May 9, you postponed the effective date for the change from June 1 to July 1, 1962. The new charges stated in your letter were \$100 per report, \$50 for a trust department report, and \$25 for a separate-bound branch report.

Because of the statutory responsibilities of the Board and the Federal Reserve Banks, including the responsibility to keep informed of the general condition of member banks, it is felt that information such as is contained in national bank examination reports is needed. Although it would be possible for the Federal Reserve Banks to obtain such information by making periodic examinations of national member banks, neither the Board nor the Reserve Banks believe that it would be desirable at this time to initiate such a system of examinations.

As stated in the Board's letter of April 9, 1962, it would not be appropriate for the Board or the Reserve Banks to pay any of your expense of examining national banks, in view of the fact that the Congress has enacted legislation making quite clear that the expense of your examinations of national banks shall be assessed against the banks examined. The Board also expressed therein the view that a Federal Reserve Bank would be justified in reimbursing your Office for the full cost of making and transmitting to it copies of your reports, calculated on any reasonable cost-accounting basis.

The statements in your April 30 letter do not provide the Board with an adequate basis for determining your cost of preparing

The Honorable James J. Saxon -2-

and transmitting the extra copies of reports furnished to the Reserve Banks. The new charges far exceed the cost which would be incurred by a Federal Reserve Bank in preparing an extra copy of a report of examination of a State member bank. However, the Board notes that your letter indicates that the new schedule of charges has not "taken into account any of the cost of conducting the actual examinations."

In the circumstances, and because of the need for the information and our reluctance to subject national banks to additional examinations, the Federal Reserve Banks will for the present and until further notice pay to your Office the applicable charge for each report requested. In view of the new schedule of charges and our desire to minimize expenditures, the Reserve Banks will dispense with some reports. For the time being, you are requested to furnish each Reserve Bank with only one examination report of all national banks in its district for each calendar year, preferably the first report of the year, but no reports of trust departments or separate reports of branches. Some Reserve Banks may wish later to obtain other examination reports at these new rates, and in that event they will communicate with your appropriate regional office in ample time to permit preparation of the requested copies at the time the original reports are being typed.

It is assumed, of course, that there will be no change in the present practice under which copies of reports of examination of national member, District of Columbia, and State member banks are freely loaned back and forth between your Washington Office and the Board of Governors.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 4  
6/27/62

OFFICE OF THE CHAIRMAN

June 27, 1962



Mr. Phillip S. Hughes, Assistant Director  
for Legislative Reference,  
Executive Office of the President,  
Bureau of the Budget,  
Washington 25, D. C.

Attention Mrs. Garziglia.

Dear Mr. Hughes:

In response to your communication of June 26, 1962, the Board recommends that the President approve the enrolled bill, S. 3291, "To amend section 14(b) of the Federal Reserve Act, as amended, to extend for two years the authority of Federal Reserve banks to purchase United States obligations directly from the Treasury."

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

T E L E G R A M  
LEASED WIRE SERVICEItem No. 5  
6/27/62BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

June 29, 1962

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Board has approved revised budget procedures for the Federal Reserve Banks to provide for semiannual reports on basis concurred in by Conference of Presidents at its meeting on June 18, 1962, as reported in memorandum submitted to the Board by the Conference, with the understanding that proposed Bank budgets for first half of year would be submitted by November 22 and for second half by May 22.

With regard to arrangements under which individual Presidents have been meeting with Board committee for preliminary discussion of budgets, Board concluded that it would be helpful to have each President continue to meet once a year with a Board committee for the purpose of discussing officers' salaries and any major changes contemplated in Reserve Bank programs, including sizable building projects, but with no intention of an over-all budget review, such meetings to be held later in the year than has been customary, probably in October or possibly in November. With this in mind, Board's budget committee was reconstituted as Committee on Organization and Building Plans, with understanding that scope of the work would include Officer Development and Compensation. For your further information, Board designated Governors Balderston, King, and Mitchell as members of Committee on Organization and Building Plans, with Governor Mitchell to serve as Chairman and with further understanding that if preliminary consultation suggested an absence of need for conference with an individual Reserve Bank President in any year, the Committee would consider the situation more fully before calling such a meeting. Letter follows.

(Signed) Merritt Sherman

SHERMAN

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

Item No. 6  
6/27/62

2401

S-1837

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 13, 1962.

Dear Sir:

As you were informed in the Board's telegram of June 29, 1962, the Board has approved revised procedures under which the Federal Reserve Bank budgets are to be prepared and submitted to the Board. A number of proposals designed to simplify and improve Reserve Bank budgetary procedures were set forth in a memorandum sent to Mr. Fulton as Chairman of the Conference of Presidents with the Board's letter of April 16, 1962, and the revisions that have been adopted are in conformance with those approved by the Conference of Presidents at its meeting on June 18, 1962. These provide for:

1. Submission of budgets by either departments or functions.
2. Submission of two budgets each year, one covering the period January 1 - June 30 and the other covering the period July 1 - December 31.
3. Comparisons of budget estimates with actual expenses for the same period one year ago.
4. A budget report form showing by departments or functions the average number of employees and total expenses for the base period and for the budget period, and the amount and percentage change in expenses.
5. Limiting explanatory material accompanying the budgets to the reasons for (a) the significant developments resulting in substantial gross increases or gross decreases in departmental or functional expenses, and (b) changes in the number of employees in Grade 12 and above expected at any time during the budget period, as compared with the number of such employees on the last day of the base period.
6. Elimination of the budget experience reports.



Under the revised procedures, statements covering evaluation of activities of certain functions, membership dues and donations, and five-year projections of bank premises projects need not be submitted with the semi-annual budgets.

The first budget to be prepared under the revised procedures is to cover the period January 1-June 30, 1963, and it should be submitted to reach the Board not later than November 22, 1962.

The Accounting Manual will be revised to reflect the changes in the Reserve Bank budgetary procedures as outlined above.

This letter supersedes the Board's letter of October 4, 1956,\* (S-1604) contained in F.R.L.S. 3186.

Very truly yours,



Merritt Sherman,  
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

\*Correct date is October 24, 1956.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 7  
6/27/62

OFFICE OF THE CHAIRMAN

June 27, 1962

CONFIDENTIAL (FR)

Mr. Joseph B. Hall, Chairman,  
Federal Reserve Bank of Cleveland,  
Cleveland 1, Ohio.

Dear Joe:

The Board has approved the payment of salary to Mr. Fulton as President of the Federal Reserve Bank of Cleveland for the period July 1-December 31, 1962, at the rate of \$40,000.00 per annum, as fixed by the directors of your Bank and reported to the Board in your letter of June 14.

Sincerely yours,

(Signed) Bill

Wm. McC. Martin, Jr.

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

Item No. 8  
6/27/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 27, 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 June 18, 1962, the Board approves the appointment of the following employees, at present assistant examiners, as examiners for the Federal Reserve Bank of New York, effective June 28, 1962:

John M. Casazza  
James J. Clark  
Joseph A. Clark  
Harry K. Graveman

Thomas R. Heffernan  
Eugene C. Kranik  
Lawrence E. Schembri  
James J. Stahl  
Jay W. Woods

It is noted that Messrs. Clark (Joseph A.), Graveman, Heffernan, Kranik, Schembri, Stahl and Woods are indebted to various nonmember banks. It is understood, of course, that the Board's approval of these appointments is given with the understanding that, should your Bank have occasion to examine any of these institutions, no individual named above will be permitted to participate in any examination of the bank to which now indebted unless his indebtedness to that institution has been liquidated.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.