

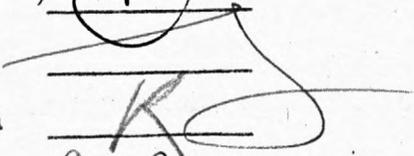
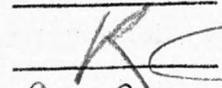
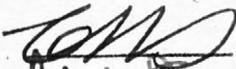
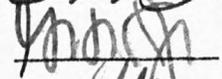
Minutes for September 6, 1962

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></u>  |
| Gov. Mills      | <u></u> |
| Gov. Robertson  | <u></u>  |
| Gov. Balderston | <u>CCB</u>  |
| Gov. Shepardson | <u></u>  |
| Gov. King       | <u></u>  |
| Gov. Mitchell   | <u></u>  |

Minutes of the Board of Governors of the Federal Reserve System on Thursday, September 6, 1962. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman  
 Mr. Mills  
 Mr. Robertson  
 Mr. Shepardson  
 Mr. King

Mr. Sherman, Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Molony, Assistant to the Board  
 Mr. Solomon, Director, Division of Examinations  
 Mr. Hexter, Assistant General Counsel  
 Mr. Shay, Assistant General Counsel  
 Mr. Leavitt, Assistant Director, Division of Examinations  
 Mr. Sprecher, Assistant Director, Division of Personnel Administration  
 Mr. Mattras, General Assistant, Office of the Secretary  
 Mr. Young, Senior Attorney, Legal Division

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on September 4, 1962, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

Circulated items. The following items, which had been circulated 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 the Federal Reserve Bank of New York interposing no objection to a further extension of the leave of absence of Alan R. Holmes in order to permit him to continue his service in the office of the Under Secretary of the Treasury for Monetary Affairs. | 1               |
| Letter to the Federal Reserve Bank of Cleveland approving the storage of currency, as a preparedness measure, in The First National Bank of Chillicothe, Chillicothe, Ohio, an authorized Cash Agent Bank.   | 2               |
| Letter to Old Kent Bank and Trust Company, Grand Rapids, Michigan, approving an extension of time to establish a branch at 807 Eastern Avenue, S. E.   | 3               |
| Letter to First State Bank of Lynwood, Lynwood, California, approving an extension of time to establish a branch in Paramount.   | 4               |

Proposed amendments to Rules and Regulations of Retirement

System (Item No. 5). There had been circulated a memorandum from the Division of Personnel Administration dated August 20, 1962, submitting a proposed letter to the Assistant Secretary of the Retirement System of the Federal Reserve Banks regarding certain proposed amendments to the Rules and Regulations of the Retirement System. The two proposed amendments were technical and procedural in nature, and it was noted that their adoption would not appear to conflict with subsequent actions that might be taken as a result of the current comprehensive review of the retirement program of the Federal Reserve Banks.

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The first amendment, which would add to Section 1 a definition of the terms "actuarial equivalent" and "equivalent actuarial value," read as follows:

"'Equivalent actuarial value' or 'actuarial equivalent' means a benefit of equivalent value when computed on the basis of mortality tables last adopted for this purpose by the Retirement Committee and regular interest at the rate or rates last fixed under the provisions of Subdivision (5) of Section 8."

This amendment would make it clear that the two quoted terms were to be regarded as synonymous wherever they appeared in the Rules and Regulations of the Retirement System.

The second proposal would amend Section 8(5) of the Rules and Regulations to provide for simplification in the establishment of the regular interest rate for the Retirement System by permitting future changes to be made in the rate without the necessity of amending the Rules and Regulations. The amendment, proposed by the Retirement Committee, would give the Board of Trustees the exclusive right to adjust the rate to either a lower or higher level. At present the Trustees could lower the rate below 3 per cent, but an increase required an amendment to the Rules and Regulations, which amendment must be approved by the Board of Governors as well as the Board of Trustees.

In discussing the proposed amendments, which had been approved by the Board of Trustees at their meeting on June 20, 1962, Mr. Sprecher said the Personnel Division felt that as a matter of policy, and due

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to the cost factor involved, it would be undesirable to eliminate the Board's participation in the fixing of the interest rate. The Division therefore suggested that the second proposed amendment be revised to permit the flexibility desired but to require Board approval of changes in the interest rate level.

Mr. Sprecher then noted certain resolutions adopted by the Board of Trustees which were contingent on the approval of the second proposed amendment. The resolutions would establish a present interest rate of 3 per cent for the Retirement System and would authorize such changes in the Rules and Regulations of the Retirement System as might be deemed necessary to secure a favorable determination from the Internal Revenue Service to continue the tax exempt status of the Trust.

Governor Mills expressed agreement with the recommendation of the Division of Personnel Administration, including the view that the Board should retain a right of approval with respect to changes in the interest rate level of the Retirement System.

Other members of the Board likewise having expressed agreement, the proposed letter to the Assistant Secretary of the Retirement System was approved unanimously. A copy is attached to these minutes as Item No. 5.

Study of Retirement System (Item No. 6). Governor Mills introduced a discussion of the further utilization of the services

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of Professor Dan McGill of the Wharton School of Finance, University of Pennsylvania, for the purpose of reviewing certain aspects of the Retirement System of the Federal Reserve Banks. He recalled that Professor McGill, having been engaged as a consultant for this purpose, met with the Board on June 18, 1962, and presented his preliminary views. Governor Mills then stated that in a letter dated August 27, 1962, Professor McGill advised that he had returned from vacation and was available to pursue further the issues concerning the Retirement System. Governor Mills read a proposed reply that would advise Professor McGill of the procedure desired to be followed in pursuing the study.

Governor Robertson stated that it was his recollection from the meeting of the Board with Professor McGill, which was in executive session, that the latter would get in touch with Mr. George B. Buck, Actuary of the Retirement System. In this connection, he expressed the feeling that some arrangement should be made to keep a record of the discussion at any further conferences with Professor McGill so that the results could be better utilized by the Board.

From the discussion that ensued, it appeared that Professor McGill had not as yet been in touch with Mr. Buck or with other representatives of the Retirement System. However, Governor Mills felt that if the proposed letter were sent, appropriate contacts could be arranged in due course as the study proceeded. The Board could then, if it so desired, arrange to meet not only with Professor McGill but also with Mr. Buck.

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Further discussion related to the scope of the study that it would be appropriate for Professor McGill to undertake. There was general agreement with the view that a study confined to the areas cited in the letter drafted by Governor Mills would be appropriate at this time. It was understood, however, that this would not preclude a subsequent decision by the Board, should such action seem desirable, to request Professor McGill to broaden the scope of his study, perhaps along lines that he had mentioned at his initial meeting with the Board.

At the conclusion of the discussion, it was agreed that the reply to Professor McGill's letter of August 27 should be substantially in accord with the draft presented by Governor Mills, subject to a checking of the draft--as requested by Governor Mills--for technical details. A copy of the letter sent to Professor McGill pursuant to this action is attached as Item No. 6.

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

Continental Bank and Trust Company. Governor Robertson requested that the record show that although he would remain in the room for the following discussion of a matter relating to the capital adequacy proceeding against The Continental Bank and Trust Company, Salt Lake City, Utah, he would not participate in

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the discussion or in any action that might be taken by the Board, in accordance with his long-standing position of having withdrawn from participation in the matter.

Governor Shepardson referred to the discussion on August 29, 1962, of the proceeding against Continental Bank, at which time Mr. O'Connell, as Board Counsel, had been designated to confer with Mr. Sullivan, President of Continental, regarding a possible basis for settlement of the proceeding. Governor Shepardson said that Mr. O'Connell, who was now in Salt Lake City, had called on the telephone yesterday for the purpose of reviewing his discussion with Mr. Sullivan, who he described as being extremely cooperative and anxious to work out some understanding as to a basis for settlement that would be acceptable to the Board. Mr. Sullivan had asked Mr. O'Connell to meet with him again this morning to assist in drafting a tentative proposal that he (Mr. Sullivan) might make to the Board for its tentative consideration, all on a strictly confidential and informal basis. In their discussion, a question had been raised as to the procedure that might be followed in view of the scheduled start of the show cause hearing on Monday, September 10. Specifically, for reasons stated, Mr. Sullivan was anxious to avoid the necessity for the show cause hearing to commence on that date, and he hoped that a draft of his offer could

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be transmitted to the Board by telephone later today and considered by the Board tomorrow morning. If at that time the Board felt that the proposal afforded a basis that might be considered favorably by the Board, and if there could be an informal indication to Mr. Sullivan of that view, he would then get informal approval of a majority of his Board of Directors--a step concerning which he was confident there would be no difficulty. In such event a postponement of the show cause hearing scheduled for September 10 could then be arranged. Governor Shepardson indicated that two questions were thus presented. The first of these was whether the Board could plan to meet tomorrow to consider the informal draft of offer expected to be received late today from Mr. Sullivan, such consideration to be with a view to indicating to Mr. Sullivan later tomorrow the Board's views as to the proposal. The second matter related to Messrs. Powell and Chase, Board Counsel in the proceeding, who planned to leave at noon today for Salt Lake City in anticipation of the opening of the show cause hearing next Monday. In the event it appeared that the show cause hearing would be postponed, Governor Shepardson suggested that it would be desirable to notify Messrs. Powell and Chase immediately not to proceed to Salt Lake City.

There followed a discussion of the probable terms of Mr. Sullivan's offer, as mentioned in preliminary fashion by Mr. O'Connell over the telephone, at the conclusion of which Chairman Martin

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expressed the view that all the Board was required to do today was to notify Messrs. Chase and Powell not to proceed to Salt Lake City at least until after the meeting of the Board tomorrow morning, at which time the Board could consider whatever proposal might be transmitted later today by Mr. O'Connell.

Chairman Martin also suggested that Messrs. Powell and Chase be asked to stand by at the time of the meeting of the Board tomorrow in the event the Board wished to consult with them. No disagreement with the Chairman's suggestions was indicated by the members of the Board.

The meeting then recessed and reconvened at 3:00 p.m.

with the following in attendance:

Mr. Martin, Chairman  
Mr. Mills  
Mr. Robertson  
Mr. Shepardson  
Mr. King

Mr. Sherman, Secretary  
Mr. Molony, Assistant to the Board  
Mr. Solomon, Director, Division of  
Examinations

Mysterious disappearance of securities. Chairman Martin stated that he had asked the Board to meet at this time because of a telephone call that General Auditor Hartlin of the Federal Reserve Bank of San Francisco had made to Mr. Sherman, in which the request had been made that he (Chairman Martin) make a return call to Chairman Whitman for the purpose of discussing a proposal

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regarding the mysterious disappearance of Treasury certificates at the Federal Reserve Bank of San Francisco, as reported at the meeting of the Board on August 15, 1962. Mr. Hartlin had stated that, at the suggestion of a member of the Board of Directors, the Board felt that the press should be informed immediately of the mysterious disappearance. The reason for this view was the feeling that, in the event of a leak, there would be a risk of publicity that would tend to discredit the management of the Federal Reserve Bank of San Francisco. It was understood that President Swan hesitated to make a public statement at this time, and Chairman Whitman was thus seeking the views of Chairman Martin as to the procedure to be followed.

Chairman Martin stated that his initial reaction was to leave the matter in the hands of the directors of the San Francisco Bank. However, he felt it desirable to get the views of the other members of the Board of Governors before calling Mr. Whitman on the telephone.

During the ensuing discussion, question was raised as to whether the Secret Service had completed its investigation of circumstances surrounding the mysterious disappearance and whether that agency would prefer that no publicity be given to the matter at this stage. At Chairman Martin's suggestion, it was agreed that

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Mr. Solomon would get in touch with the appropriate officials at the Treasury Department to ascertain their attitude, and that on the basis of such information Chairman Martin would talk with Mr. Whitman later in the day.

Secretary's Note: Subsequently, Chairman Martin reported that word from the Under Secretary of the Treasury and the Chief of the Secret Service indicated a strong preference that no publicity be given to the mysterious disappearance at this time. Accordingly, he had talked by telephone with Messrs. Whitman and Swan of the San Francisco Bank and on the basis of this view of the Secret Service and the Treasury Department the Bank decided that no public release would be made at present.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a telegram to the Federal Reserve Bank of Atlanta (attached Item No. 7) approving the appointment of Richard W. Beagles as assistant examiner.

  
Secretary

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

Item No. 1  
9/6/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



September 6, 1962

Mr. Thomas M. Timlen, Jr.,  
Secretary,  
Federal Reserve Bank of New York,  
New York 45, New York.

Dear Mr. Timlen:

Receipt is acknowledged of your letter of August 24, in which you refer to previous correspondence and state that your directors have approved a further extension for approximately two weeks from September 8 of the period of leave of absence, with pay, for Mr. Alan R. Holmes, under the same arrangements regarding expenses as previously outlined, in order that he may continue his service in the office of the Under Secretary of the Treasury for Monetary Affairs.

The Board interposes no objection to the further extension of Mr. Holmes' leave on the basis indicated in your letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

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

Item No. 2  
9/6/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 6, 1962

Mr. W. D. Fulton, President,  
Federal Reserve Bank of Cleveland,  
Cleveland 1, Ohio.

Dear Mr. Fulton:

The Board has approved the proposal contained in your letter of August 27, 1962, for the preattack storage of \$10,100,000 in currency in The First National Bank of Chillicothe, Chillicothe, Ohio, an authorized Cash Agent Bank.

It is understood that the general terms, conditions, and procedures for effecting the preattack storage of currency with this Cash Agent are substantially the same as those approved by the Board in its letters of May 26 and August 23, 1960, and September 28 and December 11, 1961, with respect to other Cash Agent Banks in the Fourth District.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.



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

Item No. 3  
9/6/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



September 6, 1962

Board of Directors,  
Old Kent Bank and Trust Company,  
Grand Rapids, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to November 1, 1962, the time within which Old Kent Bank and Trust Company may establish an in-town branch at 807 Eastern Avenue, S. E., to replace its present branch at 758 Wealthy Street, S. E.

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. 4  
9/6/62



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 6, 1962

Board of Directors,  
First State Bank of Lynwood,  
Lynwood, California.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to March 14, 1963, the time within which First State Bank of Lynwood may establish a branch in the vicinity of the intersection of Alondra and Paramount Boulevards, Paramount, California.

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. 5  
9/6/62



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 6, 1962

Miss Grace Tessier, Assistant Secretary,  
Retirement System of the Federal Reserve Banks,  
Federal Reserve Bank of New York,  
New York 45, New York.

Dear Miss Tessier:

The Board of Governors has considered the two amendments to the Rules and Regulations of the Retirement System of the Federal Reserve Banks which were submitted with your letter of July 20, and approves the amendment to Section 1 of the Rules and Regulations as adopted by the Board of Trustees on June 20, 1962, in the form as set forth in your letter.

The Board recognizes the desire of the Retirement Committee and the Board of Trustees to provide for the establishment of changes in the regular rate or rates of interest without the necessity of amending the Rules and Regulations on the occasion of each such change. However, as a matter of policy, the Board feels that it has a responsibility to join with the Board of Trustees in reviewing and approving any changes in these interest rates. Consequently, the Board would be prepared to approve the amendment to Section 8(5) of the Rules and Regulations if it were reworded to include approval by the Board of Governors, and if so revised, would approve the fixing of the regular interest rate at its present 3 per cent figure. The recommended change in this form allows the flexibility which appears to be the primary purpose of such an amendment and, at the same time, retains the right of review and approval by the Board of any actions taken by the Board of Trustees in this connection.

The Board notes without objection the resolutions referred to in your letter authorizing such changes in the Rules and Regulations and actions by the Chairman or Vice Chairman of the Board of Trustees as may be deemed desirable to secure a favorable determination that the Trust continues to qualify in certain respects under the Internal Revenue Code.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

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

Item No. 6  
9/6/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 10, 1962.



Dr. Dan M. McGill,  
Professor of Insurance,  
Wharton School of Finance and Commerce,  
University of Pennsylvania,  
Philadelphia 4, Pennsylvania.

Dear Professor McGill:

Replying to your letter of August 27, the Board is pleased to learn that your further services are available with respect to matters affecting the Retirement System of the Federal Reserve Banks.

The Board will value your observations with respect to the proposed changing of the mortality tables, as well as the appropriateness of maintaining the present 3 per cent regular interest rate, as these observations will be a guide to any changes that might be necessary to assure the Retirement System's continued functioning on a fully funded basis.

The Board will await your suggestions as to the estimated time you will need to submit a report and what assistance you may require at the Board and at the Retirement System's offices in New York City to forward your investigation, which would be generally limited in scope to the above matters.

Sincerely yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Item No. 7  
9/6/62

**T E L E G R A M**  
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

September 6, 1962.

**SHEFFER - ATLANTA**

Reurlet September 4, 1962, Board approves appointment Richard W. Beagles as assistant examiner for Federal Reserve Bank of Atlanta, effective September 10, 1962. It is noted Mr. Beagles' father is executive vice president, First National Bank of Dunedin, Florida. Accordingly, Board's approval of appointment given with understanding he will not participate in examinations of that bank so long as father is officer thereof.

(Signed) Elizabeth L. Carmichael

**CARMICHAEL**