

FR 609  
Rev. 9/61

Minutes for June 11, 1963

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>(m)</u>
Gov. Mills	<u>[Signature]</u>
Gov. Robertson	<u>[Signature]</u>
Gov. Balderston	<u>CCB</u>
Gov. Shepardson	<u>[Signature]</u>
Gov. King	<u>[Signature]</u>
Gov. Mitchell	<u>[Signature]</u>

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, June 11, 1963. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Molony, Assistant to the Board  
Mr. Cardon, Legislative Counsel  
Mr. Fauver, Assistant to the Board  
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. Hexter, Assistant General Counsel  
Mr. O'Connell, Assistant General Counsel  
Mr. Shay, Assistant General Counsel  
Mr. Hooff, Assistant General Counsel  
Mr. Kiley, Assistant Director, Division of Bank Operations  
Mr. Leavitt, Assistant Director, Division of Examinations  
Mr. Hricko, Senior Attorney, Legal Division  
Mr. Doyle, Attorney, Legal Division  
Mr. Sanford, Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on June 10, 1963, 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.

Reserve Bank budgetary procedures (Item No. 1). In a letter dated May 17, 1963, Chairman Patman of the House Committee on Banking

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and Currency had requested (a) information about the budgetary procedures of the Federal Reserve Banks, and (b) the actual 1962 budget figures for several of the Reserve Banks, beginning with New York and Boston. A draft of reply had been distributed to the Board. It would transmit copies of the budgets of the Boston and New York Banks for the first half of 1963, rather than the budgets for the year 1962, in view of the revised form of budget procedure that was adopted effective January 1, 1963.

During discussion, certain suggestions were made for changes in the draft letter in the interest of orderly presentation and clarification. It was noted, among other things, that the reply would make reference to the expense reports of the Federal Reserve Banks.

At the conclusion of the discussion, unanimous approval was given to a letter to Chairman Patman in the form attached as Item No. 1.

Application for membership. There had been circulated to the Board a file relating to the application of Yellowstone Bank, Absarokee, Montana, Absarokee, Montana, for membership in the Federal Reserve System. The Federal Reserve Bank of Minneapolis recommended approval, but the Division of Examinations recommended that the application be denied.

In recounting the background of the matter, the memorandum from the Division pointed out that a charter for the Montana National Bank of Absarokee had been approved by the Comptroller of the Currency on March 29, 1963. On the same date Mr. B. Meyer Harris, head of a group that had also applied for a national bank charter, was advised that his

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application had been disapproved. Mr. Harris and his group then applied for a State charter, which was approved on April 8, 1963. The Harris group applied for deposit insurance to the Federal Deposit Insurance Corporation, but the application was subsequently withdrawn and membership in the Federal Reserve System was now being sought. Both the national bank and the State bank were now in operation.

After analyzing the application of Yellowstone Bank in light of the factors that must be certified by the Board to the Federal Deposit Insurance Corporation as having been resolved satisfactorily if the application were approved, the Division of Examinations concluded that approval of the membership application would not be warranted. It was felt that establishment of the State bank was probably adverse to the best interests of the small community involved, because it made less likely the possibility of profitable operations on the part of the national bank. Whereas one bank might become a profitable operation and continue to serve the convenience and needs of the community, it seemed unlikely that the community could support two banks, which could conceivably result in both banks losing money and ultimately being closed.

At the Board's request, Mr. Leavitt commented in some detail on the circumstances in which the two bank charters had been granted, on available information concerning the principal proponents of the two banks (Mr. Harris and Mr. Edward Towe), and on the initial operations of the respective banks. He also reviewed, from the Division memorandum,

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reasons that might be given in favor of and against granting the membership application of Yellowstone Bank. In the course of his comments, Mr. Leavitt noted that Mr. Towe had visited his office about a week ago to urge that the membership application of Yellowstone Bank be denied, while Mr. Harris visited the Board's offices yesterday and met with Governor Mills and Mr. Leavitt. Mr. Leavitt's comments regarding the visit by Mr. Harris were supplemented by a memorandum read by Governor Mills, in which the latter reported his impressions of the visit. It was pointed out that both Mr. Harris and Mr. Towe had requested an opportunity to appear before the Board on the matter.

There followed a lengthy discussion of the merits of the application for membership, the situation that had led to the granting of bank charters by both the Comptroller and the State authorities, the banking needs of the Absarokee community, and the prospects for banking services, on a continued basis, that would best meet the needs of the community. Consideration was given to the prospects of each of the two banks now in operation if the application for membership should be approved or, conversely, if it should be denied.

Governor Mills suggested that in all the circumstances the Board might want to consider deferring action temporarily on the membership application, and this led to a discussion during which the possibility was mentioned that the Board might assign a member of its staff to visit the area involved for the purpose of developing additional information. It was not clear, however, whether such an investigation

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would produce any significant data not already available to the Board. It was also mentioned that while the Minneapolis Reserve Bank--through Vice President McConnell--had recommended approval, the Bank's examiner who investigated the application had recommended denial; it was not known whether President Deming, who was presently on vacation, had had an opportunity to participate in the consideration of the matter. As to the requests for an opportunity to appear before the Board, there appeared to be general agreement with the view of the Legal Division that the granting of such requests would not be likely to afford the Board a better basis for action on the application.

At the conclusion of the discussion, it was agreed to defer action on the application for about a week in the thought that the matter could then be considered further against the background of today's discussion and any subsequent information or developments. It was understood that Mr. Leavitt would advise Mr. Harris that the Board continued to have the application under consideration.

Treatment as "savings deposits" of deposits with a "fixed" maturity (Item No. 2). There had been distributed to the Board a memorandum from the Legal Division dated May 28, 1963, dealing with a question that the Board had considered on several occasions over approximately the past year; namely, whether deposits evidenced by various forms of certificates with "fixed" maturities, i.e., payable at a specified date or at the expiration of a specified period after date of issue, could properly be classified as "savings deposits" under Regulation Q, Payment of Interest on Deposits.

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The immediate question before the Board related to an inquiry from the Federal Reserve Bank of Chicago on behalf of The Beloit State Bank, Beloit, Wisconsin. It was the opinion of the Legal Division that the certificates involved in the Beloit case would not comply with the present regulatory definition of a "savings deposit" because they could be paid at any time without notice or the reserved right to require notice.

The Board concurred in the opinion of the Legal Division in this respect. Accordingly, unanimous approval was given to the letter to the Federal Reserve Bank of Chicago of which a copy is attached as Item No. 2.

After extensive review of the broader question the Legal Division's memorandum expressed the opinion: (1) that a deposit payable with a fixed maturity, without reservation of the right to require notice of withdrawal at that time, would not comply with the present regulatory definition of a "savings deposit"; (2) that there was no sound reason why deposits with fixed maturities should not be classified as savings deposits (this representing a reversal of a view previously stated by the Legal Division); and (3) that Regulation Q should be amended so as expressly to permit savings deposits with such fixed maturities. It was suggested that consideration be given to amendments to Regulation Q along lines set forth in the memorandum, and that the Federal Reserve Banks, the Comptroller of the Currency, and the

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Federal Deposit Insurance Corporation be given an opportunity to express their views regarding the matter.

At the Board's request, Mr. Hackley reviewed and amplified the material contained in the Legal Division's memorandum, with reference to the background of the matter, the consideration previously given to the subject by the Board and the Federal Reserve Banks, possible alternative courses of action, and the course recommended by the Legal Division.

In the discussion that followed, Governor Mitchell indicated that he saw a need for re-examining and possibly overhauling Regulation Q in many respects. He found it difficult to get into the Regulation on a piecemeal basis and suggested, therefore, that the Board try to take a look at the Regulation as a whole. He considered such a review quite important at this time because of certain developments in the field of commercial banking to which he referred.

Governor Mills presented comments in favor of retaining the present posture of regulatory definition, i.e., the position that deposits evidenced by certificates with fixed maturities should not be classified as savings deposits. His thinking on the matter, he said, went to the distinction between "bona fide" savings deposits and the kind of deposits represented by certificates with fixed maturities. As far as the bank was concerned, there was no reserve advantage one way or the other. Therefore, the question was whether a bank should be permitted to issue a certificate with a long maturity, and various possibilities of repayment in advance of final maturity, and consider

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it a bona fide savings deposit. Such deposits did not conform to the type of savings deposit normally maintained by the general run of bank depositors. The funds involved were more in the nature of investment funds, and he felt that they should be carried as time deposits open account or time certificates of deposit. He also noted that "true" savings accounts accumulate funds for thrift purposes, and such funds cannot be transferred from one holder to another except by assignment. If certificates representing such funds were not negotiable, he could not see any particular advantage to the holder as between having a savings deposit and a certificate of deposit. To summarize, he felt that the Board should stand on its present position. Several years ago, when the Board permitted savings deposits to be represented by machine slips, in addition to passbooks, this step was urged as a means of keeping pace with the development of accounting procedures and automation. However, it had produced a succession of difficulties.

Mr. Hackley commented that if the Board so desired, the staff could consider further the subject dealt with in the Legal Division's memorandum along with other aspects of Regulation Q. He doubted, however, whether there was any simple solution. The Regulation was necessarily technical in nature, and there would continue to be problems even if legislation should be enacted relieving the Board from the necessity of imposing maximum permissible rates of interest.

The discussion concluded with a decision on the part of the Board not to take any action at this meeting beyond sending the letter in

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response to the inquiry from Beloit State Bank. Chairman Martin commented that he thought Governor Mitchell had made a good suggestion about trying to review Regulation Q as a whole, even though such an undertaking would be difficult.

Mr. Doyle then withdrew from the meeting.

Application of Bank of Virginia. There had been distributed a memorandum from the Division of Examinations dated May 27, 1963, and other pertinent papers relating to an application by The Bank of Virginia, Richmond, Virginia, for prior consent to merge with The Bank of Henrico, Sandston, Virginia. The recommendation of the Division was favorable.

At the request of the Board, Mr. Leavitt commented on the application, his remarks being based essentially on the information contained in the Division memorandum and in an accompanying memorandum prepared by the Federal Reserve Bank of Richmond. Mr. Leavitt noted in the course of his comments that a study by the staff of the capital position of all of the banks in the Virginia Commonwealth Corporation holding company group was in process. While the capital position of Bank of Virginia was not entirely satisfactory, this would not seem to argue against the proposed merger with Bank of Henrico, another institution in the Virginia Commonwealth group.

The application of Bank of Virginia was then approved unanimously, with the understanding that drafts of an order and a supporting statement reflecting this decision would be prepared by the Legal Division for the Board's consideration.

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Mr. Sanford then withdrew from the meeting.

Report on competitive factors (Roanoke-Marion, Virginia). There had been distributed to the Board a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The Marion National Bank, Marion, Virginia, into The First National Exchange Bank of Virginia, Roanoke, Virginia.

After a discussion during which certain changes in the wording of the conclusion were agreed upon, unanimous approval was given to the transmittal of the report to the Comptroller in a form in which the conclusion read as follows:

The First National Exchange Bank of Virginia and The Marion National Bank do not appear to be competitors to a significant extent and the proposed merger would thus eliminate very little competition.

However, it would accentuate the concentration of banking resources in Virginia via mergers and through the establishment of holding companies.

In the primary service area of The First National Exchange Bank of Virginia, there are other mergers and holding company acquisitions pending and it appears that competition in the area between major banking institutions is increasing. There remain a number of smaller banks in the area and these banks do not acknowledge potential adverse competitive effects from this proposed merger. However, as competition intensifies among larger banks in the area smaller banks may be placed at a competitive disadvantage.

Mr. Hricko then withdrew from the meeting.

Handling of Government securities (Item No. 3). There had been distributed to the Board a draft of letter to President Irons, Chairman of the Conference of Presidents of the Federal Reserve Banks, regarding the possibility of substituting a book-entry procedure for the procedures currently followed by the Reserve Banks in holding U. S. Government

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securities in safekeeping or as collateral. The purpose of sending the letter would be to invite the views and comments of the Conference of Presidents with respect to the practicality of such a plan and the desirability of its adoption.

Mr. Farrell, who had drafted the proposed letter, commented at the request of the Board concerning the essential features of the plan, which he noted was similar to ideas that had been advanced from time to time in the past. In response to a question, he indicated that as yet there had been no consultation with representatives of the Treasury Department.

In further discussion, Governor Mills indicated that he had certain rather indefinite reservations regarding the ultimate ramifications of such a procedure. However, he considered it desirable to obtain the views and comments of the Reserve Bank Presidents.

The proposed letter, a copy of which is attached as Item No. 3, was then approved unanimously.

Mercantile Trust Company (Item No. 4). Mercantile Trust Company, a State member bank of St. Louis, Missouri, which owned all of the stock of a corporation called Mississippi Valley Company, wished to absorb into the operations under its control another corporation (Mercantile Mortgage Company) that engaged on a large scale in the origination and servicing of mortgages. It proposed to do this by having Mississippi Valley Company purchase the assets of Mercantile Mortgage Company and thereafter to function as a mortgage company. Further, as part of the

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transaction, the member bank planned to make a "capital contribution" of \$4 million to Mississippi Valley Company. The assets of Mercantile Mortgage Company included the capital stock of four corporations that apparently operated as insurance agencies; and in a related transaction Mississippi Valley Company proposed to purchase from the owner all of the stock of three additional corporations, including a life insurance company, an acceptance corporation, and a loan company. The proposed transactions were to have been consummated by Saturday, June 15, but it was understood that the date had been changed to June 21. Representatives of the Federal Reserve Bank of St. Louis had indicated to the Board's staff a tentative intention to request Mercantile Trust Company to postpone the closing of these transactions on the ground of the existence of serious legal questions.

A memorandum from Mr. Hexter dated June 10, 1963, which had been distributed to the Board, outlined the major facts and problems of the situation, including the nature of the legal questions involved. The memorandum suggested that the St. Louis Reserve Bank be informed that it appeared to the Board that serious legal questions existed, and that the proposed transactions should not be consummated until the Board had had an opportunity to study the matter adequately to determine whether the transactions would or would not violate provisions of Federal law or conditions of System membership applicable to Mercantile Trust Company. The Reserve Bank could then transmit this advice to the member bank, together with its own tentative views.

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After discussion, unanimous agreement was expressed with the procedure suggested in Mr. Hexter's memorandum. It was understood that Mr. Hexter would advise the St. Louis Reserve Bank accordingly by telephone, with a confirming letter, and that the legal questions involved in the proposed transactions would be brought back to the Board for consideration after further study by the Reserve Bank and the Board's staff.

A copy of the letter subsequently sent to the Federal Reserve Bank of St. Louis is attached as Item No. 4.

Visit to Board's offices. Several additional members of the Board's staff joined the meeting at this point for a brief review of arrangements that had been made for a visit to the Federal Reserve Building this afternoon by members of the House Banking and Currency Committee. Certain minor suggestions regarding the arrangements were made in the thought of being as helpful as possible to the Committee members in obtaining information concerning the Board's facilities and operations of the kind in which it was understood they might be interested.

The meeting then adjourned.

Secretary's Notes: On May 31, 1963, Governor Shepardson approved on behalf of the Board the request of Mr. Solomon, Director, Division of Examinations, contained in his memorandum of May 29, 1963, for permission to participate in a panel discussion on bank supervision on June 21, 1963, at the Stonier Graduate School of Banking at Rutgers University, Brunswick, New Jersey, while on annual leave, with

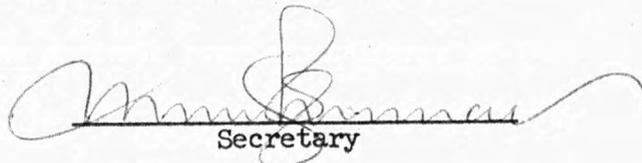
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the understanding that the School of Banking would pay all expenses, including an honorarium.

On June 3, 1963, Governor Balderston, acting in the absence of Governor Shepardson, approved on behalf of the Board a memorandum dated May 31, 1963, from Mr. Young, Adviser to the Board and Director, Division of International Finance, requesting payment by the Board of the costs of a dinner given at the Cosmos Club on May 21, 1963, on the occasion of the visit of officials of the Bank of England and the British Treasury.

Governor Shepardson today approved on behalf of the Board the request of Susan R. Clark, Statistical Clerk, Division of Bank Operations, for permission to do part-time statistical work for the Washington Calculating and Inventory Service.

  
Secretary

Item No. 1  
6/11/63BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

OFFICE OF THE CHAIRMAN

June 12, 1963

The Honorable Wright Patman,  
Chairman, Committee on Banking  
and Currency,  
House of Representatives,  
Washington 25, D. C.

Dear Mr. Chairman:

This responds to your May 17 letter requesting (a) information about the procedures applicable to the budgets of the Federal Reserve Banks, and (b) the actual 1962 budgetary figures for the New York and Boston Reserve Banks.

The Reserve Bank budgetary procedures have been established in the light of the Board's various controls over expenditures of the Reserve Banks. These controls may be generally classified as follows:

Budgets

Semiannual budgets are received from each of the 12 Federal Reserve Banks and their 24 branches in the following form:

- (1) A statement showing for each department or function the average number of employees and total expenses for the six months of the budget period compared with the base period, and the amount and per cent of the change in total expenses in the budget period.
- (2) Explanatory statements giving the reasons for significant changes expected during the budget period in expenses for each department or function and in the number of employees in Grade 12 and above.

The budgets are prepared by the managements of the Federal Reserve Banks and then reviewed and approved by their Boards of Directors. The directors have a first-hand knowledge of community conditions and Reserve Bank and branch operations; therefore, they are called upon to approve the budgets before they

are submitted to the Board of Governors for consideration. At each Bank, the individuals in charge of departmental operations have a part in the preparation of the budget and have the responsibility for the administration of their departmental budgets.

When received by the Board, the budgets are first analyzed by its staff. These analyses include comparisons of the budget figures for each Bank with that Bank's expenses for previous periods, as well as comparisons with general cost and wage trends. Additional information is obtained from the Banks in cases where such action is deemed necessary. The budgets are then presented to the Board for its formal consideration, along with the results of the staff analyses. After the budgets have been acted upon, each Bank is advised individually of the Board's acceptance of its budget or of any exceptions that have been taken thereto.

The budgets themselves are but one segment of the information available to the Board in the discharge of its supervisory responsibilities over the expenditures of the Reserve Banks. The budgets are intended to focus on any significant changes that the various Reserve Banks and branches may contemplate or foresee in their operations and other cost factors during the next six months. Proposed changes are considered in the light of, and supplemented by, the quarterly expense reports, which show current and detailed information with respect to expenditures for each activity at each of the 12 head offices and 24 branches of the Reserve Banks.

This form of budget procedure was adopted effective January 1, 1963. Prior to that time, the budgets were submitted on an annual basis and included much of the information that is now shown in the quarterly expense reports. The arrangement calling for the submission of budgets every six months was decided upon after much experimentation. It eliminates many of the usual difficulties of budget revisions that are inherent in arrangements that call for predictions extending a year or more into the future.

#### Expense Reports

Expenditures covered by the budgets are reported quarterly to the Board of Governors by each of the 12 Reserve Banks and their 24 branches in a form indicating--

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- (a) Total amount for each of the various objects of expenditure such as salaries, postage, taxes, furniture and equipment, and the amount of reimbursable or recoverable expenses.
- (b) Distribution of the larger and more significant of these expenses, along with certain other data, according to activities such as currency and coin, check collection, and fiscal agency. The other data so reported include the average number of employees in each activity; and, for measurable activities, the number of items handled and the productive rate and unit cost of handling these items.

#### Building Projects

Reserve Bank expenditures for the construction of new buildings, additions, or any such capital outlays, including the acquisition of property for future expansion, require the specific advance approval of the Board of Governors. In practice, ideas along these lines are discussed with the Board in their formulative stages, generally a year or more before firm plans are made. Proposals from the Reserve Banks for such expenditures are accompanied by detailed plans and specifications subject also to approval or changes therein by the Board of Governors on the advice of its consulting architect. Reserve Bank proposals involving charges to current expenses for major building repairs and alterations also are required to be submitted to the Board of Governors for its consideration.

#### Official Salaries

The salary proposed for each of the Reserve Bank officers is required to be submitted to the Board of Governors for its consideration annually before the beginning of the year. Official positions at the Banks have been classified into groups ranging from A to F, depending upon the level of responsibilities involved. The Board approves a salary range for each of the groups at each of the Banks. Proposed adjustments within the approved range are based on performance reviews, and are submitted to the Board for individual approval.

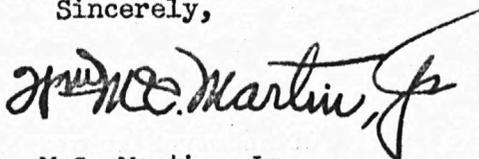
Although your letter requests the actual budgetary figures of the New York and Boston Reserve Banks for the year 1962, we presume

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that you would prefer budgets prepared under procedures now in effect. Accordingly, enclosed are copies of the budgets of these two Banks for the first half of 1963, along with a copy of the Board's letters of December 19, 1962, accepting these budgets.

Sincerely,

A handwritten signature in cursive script, reading "Wm. McC. Martin, Jr.", with a large, sweeping flourish at the end.

Wm. McC. Martin, Jr.

Enclosures.

Item No. 2  
6/11/63BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 11, 1963.



Mr. Ward J. Larson, Assistant Counsel,  
Federal Reserve Bank of Chicago,  
Chicago 90, Illinois.

Dear Mr. Larson:

This refers to your letter of November 20, 1962, enclosing a letter and memorandum from The Beloit State Bank, Beloit, Wisconsin, regarding the questions (1) whether the word "bond" may appropriately be used in describing certain forms of certificates intended for use in evidencing savings deposits, and (2) whether the forms of certificates enclosed with the Bank's letter may be classified as savings deposits under the Board's Regulation Q.

As to the first question, the Board's letter of January 30, 1963 (F.R.L.S. #6281.2) indicated that nothing in section 19 of the Federal Reserve Act or Regulation Q prohibits the use of the word "bond" in a certificate evidencing a savings deposit. Whether the use of that word would be considered objectionable by the State banking authorities or by the United States Treasury Department would, of course, be for those agencies to determine.

As to the second question, it is the Board's opinion that deposits evidenced by the two forms of certificates enclosed with the Bank's letter would not fall within the definition of the term "savings deposit" in section 217.1(e) of the Board's Regulation Q.

The two forms provide for payment five years after date of issue, but permit earlier payment on any "semi-annual anniversary date" in accordance with the schedule of redemption values stated on the reverse of each certificate. One form, termed "Income Series", provides for semiannual payment of interest by check; the other, a "discount" form, provides for an increasing redemption value over the life of the deposit. Under either form, however, it appears that a depositor would have a legal right to withdraw his deposit at any time, subject to loss of interest from the last preceding semiannual "anniversary" date.

Mr. Ward J. Larson

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The definition of "savings deposit" in section 217.1(e) of Regulation Q provides that the deposit must be one with respect to which the depositor "is required, or may at any time be required, by the bank to give notice in writing of an intended withdrawal not less than 30 days before such withdrawal is made."

The proposed forms neither require, nor reserve to the bank a right to require, not less than 30 days' written notice of withdrawal. For this reason, deposits evidenced by such certificates could not be classified as savings deposits under Regulation Q. Since withdrawals would be permitted without advance written notice of not less than 30 days, the deposits would not meet the requirements of the definition of either a "time certificate of deposit" or a "time deposit, open account". Consequently, under section 217.1(a) of Regulation Q, deposits evidenced by such certificates would constitute demand deposits.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 3  
6/11/63



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 11, 1963.

Mr. Watrous H. Irons, Chairman,  
Conference of Presidents,  
Federal Reserve Bank of Dallas,  
Station K,  
Dallas 2, Texas.

Dear Mr. Irons:

Discussions of the recent San Francisco securities incident have prompted an inquiry as to why the Federal Reserve Banks do not use a book-entry procedure--perhaps along the following lines--for Government securities they hold for member banks, instead of actually issuing the securities and then holding them in their vaults in safekeeping or as collateral.

- (1) As part of the arrangements under which the Reserve Banks hold Government securities for member banks, an agreement would be worked out to provide that no actual bonds, certificates, etc. would be issued when member banks subscribe to new issues of securities with instructions to Reserve Banks to hold such securities.
- (2) In lieu of the securities, the member banks concerned would receive from the Reserve Bank an acknowledgment that a specified amount of securities of a specified issue had been credited to the member bank's "Securities Account." Additional records would be kept to show whether the security credit was to be reflected in safekeeping or collateral accounts.
- (3) Shifts between safekeeping and collateral accounts at the request of member banks would be made merely by bookkeeping entries, as they actually are now at some Reserve Banks.
- (4) These security accounts could be kept on computers so that interest due from coupons or otherwise could be calculated and credited to the owning member banks.

Mr. Watrous H. Irons

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- (5) The basic agreement would provide that the bonds, etc. would be issued (from unissued stock which the Reserve Bank would hold) if the owning bank wished to sell the securities to an entity other than another member bank. If the securities were to be sold to another member bank, even in another District, the transaction would be handled by wire transfer and book entry, with no securities issued.
- (6) Redemptions would be handled by closing out the Securities Account and crediting the member bank's Reserve Account, or crediting the amount due against a new issue of securities if that were the desire of the member bank.

If such a procedure were adopted, Government securities now held for member banks could be destroyed, and such holdings in the future confined to issues other than United States Governments. Such an arrangement would free vault space, lighten the burden of handling coupons, and minimize the risk of misplacing securities of high value. It seems possible that these advantages would more than offset the additional bookkeeping work that the plan would entail.

Accordingly, the Board would like to have the views and comments of the Conference of Presidents with respect to the practicality of such a plan and the possible desirability of its adoption.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 4  
6/11/63



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 11, 1963.

Mr. Harry A. Shuford, President,  
Federal Reserve Bank of St. Louis,  
St. Louis 66, Missouri.

Dear Mr. Shuford:

As Mr. Hexter informed you by telephone earlier today, the Board has given consideration to the contemplated acquisition by Mississippi Valley Company, a subsidiary of Mercantile Trust Company of St. Louis, of the assets and business of Mercantile Mortgage Company and the stock of certain other corporations. It appears to the Board that serious legal questions exist with respect to the proposal which require further study. The parties wish to consummate the transactions on June 21, 1963, and with this in mind the Board will make every effort to reach its conclusions as promptly as possible.

It is understood that your Bank has communicated to Mercantile Trust Company the substance of the preceding paragraph, and has advised that bank that the transactions should not be consummated unless and until the Board has determined that they would not violate any provisions of Federal law or of the conditions of membership applicable to Mercantile Trust Company.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.