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Minutes for June 25, 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> </u> <u> </u>
Gov. Mills	<u> </u> <u> </u>
Gov. Robertson	<u> </u> <u> </u>
Gov. Balderston	<u> </u> <u> </u>
Gov. Shepardson	<u> </u> <u> </u>
Gov. King	<u> </u> <u> </u>
Gov. Mitchell	<u> </u> <u> </u>

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, June 25, 1963. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant to the Board
Mr. Noyes, Director, Division of Research and Statistics
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel Administration
Mr. Connell, Controller
Mr. Hexter, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Holland, Adviser, Division of Research and Statistics
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Bass, Assistant Controller
Mr. Mattras, General Assistant, Office of the Secretary
Mr. Smith, Technical Assistant, Division of Bank Operations
Mr. McClintock, Supervisory Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of Boston and Atlanta on June 24, 1963, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

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Market structure study (Item No. 1). Chairman Martin advised the Board that he had talked with the Comptroller of the Currency with regard to a letter from the Comptroller dated June 18, 1963, concerning a market structure study that the Comptroller incorrectly understood was being made by the Board.

After discussion of the matter, it was agreed to send a reply to the Comptroller in the form attached to these minutes as Item No. 1 so that the record would be complete.

Messrs. Noyes and Holland then withdrew from the meeting.

Assessment on Federal Reserve Banks for second half of 1963.

Copies of a memorandum from Mr. Bass, Assistant Controller, dated June 24, 1963, had been distributed recommending that an assessment of .00250 of the total paid-in capital and surplus of the Federal Reserve Banks as of June 30, 1963, be levied upon the Banks to defray the expenses of the Board for the second half of 1963. Based on estimated capital and surplus of \$1,414,793,000, the rate indicated would produce \$3,537,000.

There being no objection, the proposed assessment was approved unanimously.

Request for merger applications (Item No. 2). Mr. Solomon reported to the Board that he had been advised by Mr. Neil Greensides of the Federal Deposit Insurance Corporation that the Corporation had received a request from the staff of the House Banking and Currency

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Committee to make available bank merger applications filed during the year 1961, which would include applications acted on by the Board. Mr. Greensides was told that the Committee staff would prefer to receive the requested applications from the Corporation rather than to approach each Federal banking agency separately, and it was understood that Mr. Greensides would get whatever clearance from the other banking agencies he considered necessary. Mr. Solomon noted that in connection with the preparation of competitive factor reports the Corporation had received copies of applications passed on by the Board and the Comptroller of the Currency.

After discussion, the Board agreed to interpose no objection to the Corporation furnishing the Committee the merger applications involving those cases where the resulting institution was to be a State member bank. It was decided to send a letter to Chairman Patman of the House Banking and Currency Committee advising him to such effect, with a copy to the Federal Deposit Insurance Corporation. A copy of the letter, as sent, is attached to these minutes as Item No. 2.

Messrs. Shay and McClintock withdrew from the meeting at this point.

Federal Reserve Bank budgets (Item No. 3). There had been distributed a memorandum from the Division of Bank Operations dated June 10, 1963, with regard to the Federal Reserve Bank budgets for the last half of 1963. The budgets totaled \$104.4 million, which was 4.9

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per cent above actual expenses for the last half of 1962 but only 2.1 per cent above "base period" expenses. (The Board's letter S-1863, dated February 7, 1963, had suggested that the Reserve Banks experiment with comparing the budgets to the "current rate of expenditures," which rate was to be determined by whatever method each Bank considered most appropriate. The proposal was on a voluntary basis, and comparison to the previous corresponding period was permissible. The "current rate of expenditures" was thereafter adopted as a base by seven Reserve Banks, while five Banks continued to use actual year-ago figures for comparative purposes.)

The major part of the current budget increases was attributable to trends related to present operations, such as the continuing rise in the volume of checks processed; continuing increases in bank merger and holding company activities; the filling of existing staff vacancies; the continuing increase in salary and related costs of present staff; and the schedules for printing Federal Reserve notes. In summarizing the budget presentation from each Reserve Bank, the memorandum from the Division of Bank Operations placed emphasis on isolating the factors involving changes in operations or Bank policy, and on expenditures of substantial amounts on new or special nonrecurring projects. It was noted that there were a number of factors in this budget period that applied to all Banks, including (1) the cost of the new Federal Reserve motion picture; (2) an increase in postal or armored car rates, mainly on shipments of currency and coin to and from member banks;

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(3) the completion of conversion to prepunched postal money orders in April 1963, reducing personnel and equipment costs; and (4) an increase in the Board's assessment. A summary of additional factors peculiar to the individual Banks that accounted for net increases or decreases in their budgets was shown in the information presented for each Bank.

The Division of Bank Operations recommended that the use of the "current rate of expenditures" as a base for purposes of comparison be made uniform for all Reserve Banks beginning with the budgets for the first half of 1964. The Division also noted that President Irons of the Dallas Bank had again indicated that it was the view of the Bank's Budget Committee and other directors that the preparation of a six-month budget was as time-consuming as the preparation of an annual budget and that the six-month budget was less valuable as a management tool. The Division believed, however, that the six-month budget was more realistic and informative; its use had enabled the Banks to be more definite about their plans and had also resulted in the elimination of explanatory material dealing with events that had taken place as much as a year prior to the budget period. It was recommended that the Board's letter accepting the budget of the Dallas Bank state that President Irons' letter had been brought to the Board's attention, that it was recognized that semiannual budgets might result in some additional work, but that the advantages were believed to outweigh the disadvantages.

Consideration of the budgets at this meeting began with a statement by Mr. Kiley in amplification of the information contained in the document that had been distributed by the Division of Bank Operations.

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In ensuing discussion, Governor Shepardson directed attention to a statement in the memorandum indicating that the comments on the budgets of the individual Reserve Banks summarized factors, in addition to those applicable to all Banks, largely accounting for the net increases or decreases in their budgets. He regarded the presentation in this respect as misleading since, as he illustrated in the case of several Banks, the factors cited for the respective Banks accounted for only a relatively small part of the budget increases or decreases. Comments by Messrs. Farrell and Kiley reflected awareness of the difficulty mentioned by Governor Shepardson, which was attributable essentially to lack of a breakdown, for each Bank, of certain factors applicable to all Reserve Banks. Detailed breakdown figures were presented for some of the Reserve Banks by way of illustration, and it was understood that these breakdowns would be among the materials included in the Board's files.

Governor Mills stated that he had misgivings about the adequacy of the current budget procedure and indicated that he would welcome reverting to the earlier, more detailed procedures. As he interpreted the existing procedure, the budget presentations dealt more with magnitudes than specifics, with reliance upon gross figures in place of an investigation of individual budget items. If so, this would appear to encourage the Reserve Banks to transfer budgeted expenditures from one category to another. Presumably more precise information was available to the Division of Bank Operations, but he considered the material presented

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to the Board so sketchy as to lead to possible difficulties and criticism on the ground of apparent lack of adequacy of supervision over the expenditures of the Federal Reserve Banks.

In reply, Mr. Farrell commented that the new budget procedure was rooted in the quarterly functional expense reports, through which it was possible to know what the Reserve Banks were doing as the year moved along. The budgets were intended to focus on changes. As to individual items, the budget procedure contained a requirement that if any reporting unit showed a significant gross change in expenditures, the factors causing such change must be explained, even if there were offsetting decreases in other areas within the same department. The focusing of attention in budget preparation and review on changes from current information reflected in the quarterly functional expense reports enabled the Division of Bank Operations to ascertain what significant differences in the operations and expenses of the Federal Reserve Banks were to be expected in the forthcoming period.

Governor Mitchell indicated that in his opinion the distributed document, with perhaps the shortcoming referred to by Governor Shepardson, was the best treatment he had seen of what was happening and what might be expected to happen in the area of Reserve Bank expenditures. The slimming down of the budget detail did not have the effect of preventing anyone from finding out what was going on; by bringing the presentation down to manageable proportions, it increased one's ability to concentrate on factors making for changes in rates of expenditure, including factors

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common to all Reserve Banks and those peculiar to individual Banks. The procedure was intended to give the Banks as much latitude as feasible in the way they put their budgets together, and the figures were not as comparable as they would be if hard and fast rules were laid down, but the thought was to get the benefit of experimentation and the scheme was working out even better than he had anticipated when it was adopted. In his opinion the large amount of detail formerly presented was not of substantial use to the Board or to the Reserve Banks and had, in fact, tended toward an unrealistic exercise as distinguished from policymaking in the area of costs.

There followed a discussion of the views of the Dallas Bank concerning the preparation of budgets on a semiannual basis as opposed to an annual basis, and it was suggested by Governor Balderston that this subject might be dealt with in conversation between a Board member and President Irons rather than by comments in the letter to the Bank accepting its budget for the second half of 1963. Governor Shepardson noted that he continued to join with President Irons in questioning the value of the procedure of preparing budgets semiannually.

With reference to the recommendation of the Division of Bank Operations that the use of the current rate of expenditures as a basis of comparison in budget presentations--as contrasted with the use of actual expense figures for the corresponding period of the previous year--be made mandatory beginning with the budgets for the first half of 1964,

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it was noted that seven Banks were already following this procedure and that further discussion might result in enlargement of this group voluntarily. It was also noted that there continued to be some disparity among the Banks as to the method of calculating the current rate of expenditures. Accordingly, it was agreed that no mandatory requirement for uniformity would be imposed at this time and that Mr. Farrell would continue to discuss the subject with the respective Banks.

The budgets for the respective Federal Reserve Banks for the last half of 1963 were then accepted as submitted. A copy of the letter sent to the Federal Reserve Bank of Boston pursuant to this action is attached as Item No. 3; the letters sent to the other Banks were similar in form.

Mr. Bass then withdrew from the meeting.

Check collection operations at Cleveland. There had been distributed, with a transmittal memorandum from the Division of Bank Operations dated April 18, 1963, material from the staff of the Division reflecting a recent survey of check collection operations at the Federal Reserve Bank of Cleveland, where certain difficulties were being encountered.

After amplifying comments by Mr. Kiley and by Mr. Farrell, along with comments by Mr. Solomon concerning observations of the Board's examiners during the recent examination of the Cleveland Bank, consideration was given to the procedures that might most appropriately be followed in

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determining what corrective steps were contemplated by the management of the Bank. This discussion concluded with the understanding that Chairman Martin would talk with President Hickman when the latter was in Washington for the next meeting of the Federal Open Market Committee, after which the Chairman would report back to the Board.

Use of survey reports. In connection with the foregoing discussion, question was raised as to what extent the members of the Board might like to have made available to them the reports prepared by the staff of the Division of Bank Operations on a continuing basis concerning its surveys of the various functions of the Reserve Banks. It was noted that in most instances these reports were technical in nature.

After consideration of this question, it was suggested by Governor Mills that such reports be brought to the Board's attention, as a matter of information, when considered necessary or desirable by the Director of the Division of Bank Operations. This suggestion contemplated that any corrective steps indicated by the surveys would be left to the Division of Bank Operations, although the Division would come to the Board if necessary, for example, if there was delay in taking appropriate measures at the Reserve Bank concerned. The Board would be apprised of any significant defects in Reserve Bank operations that might be disclosed by the surveys and could take whatever action might seem warranted, but it would not attempt to concern itself with the details of operating procedures at the Banks.

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There was general agreement with the procedure suggested by Governor Mills, with the understanding that such survey material from the Division of Bank Operations as might be circulated to the Board from time to time as a matter of information would be placed on the agenda for discussion at a Board meeting on any occasion when a member of the Board expressed such a desire.

All of the members of the staff except Messrs. Sherman, Kenyon, Solomon, and Johnson then withdrew from the meeting.

Associate General Auditor at Atlanta (Item No. 4). There had been circulated to the Board a file relating to the request of the Federal Reserve Bank of Atlanta for approval of the payment of salary to Richard A. Sanders, currently Supervising Examiner in the Bank Examination Department, at an annual rate of \$15,250, effective upon Board approval, as an officer of the Bank with the title of Associate General Auditor. The reasons underlying the proposed establishment of this position were set forth in a letter from Chairman Tarver dated May 30, 1963, and a letter from President Bryan dated June 14, 1963, advised of the action taken by the Board of Directors of the Bank on the proposed salary rate. The arrangement contemplated by the Bank was one under which the present General Auditor and Assistant General Auditor would continue in their existing capacities. Mr. Sanders' position was to be classified in Salary Group A.

Discussion of the matter was based not only on the information contained in the letter from Chairman Tarver and in a memorandum from the

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Division of Personnel Administration but also on conversations that had been held between President Bryan and several of the members of the Board of Governors. The discussion at this meeting related to the qualifications of Mr. Sanders (which appeared suitable), the novel arrangement proposed by the Atlanta Bank for the supervision of the audit function, the circumstances involved, and the salary classification proposed for the position of Associate General Auditor. While some reservations were expressed as to the manner in which the proposed arrangement would operate in achieving the desired objectives and a suggestion was made that some aspects of the matter might be discussed further with Deputy Chairman Chalkley (Chairman of the Audit Review Committee of the Board of Directors), it was brought out that the proposal represented the results of a study by the Atlanta directors reflecting interest in strengthening the audit function at the Reserve Bank for the future, and it was the consensus that any reservations should be resolved on the side of not questioning at this point the program worked out in the best judgment of the directors. Therefore, unanimous approval was given to the letter to Chairman Tarver of which a copy is attached as Item No. 4.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

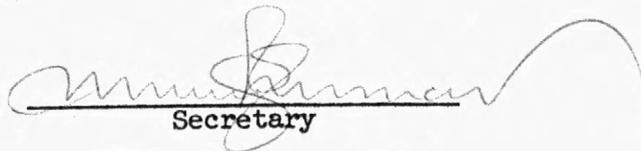
Letter to the Federal Reserve Bank of Philadelphia (attached Item No. 5) approving the designation of eight employees as special assistant examiners.

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Letter to the Federal Reserve Bank of Richmond (attached
Item No. 6) approving the designation of A. Franklin Traylor, Jr.,
as special assistant examiner.

Letter to the Federal Reserve Bank of Kansas City (attached
Item No. 7) approving the designation of 69 employees as special
assistant examiners.



Secretary

Item No. 1
6/25/63BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

June 25, 1963.

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

Dear Jim:

The Board's staff is not conducting any such nationwide survey as that referred to in your letter of June 18, and no questionnaire of the sort you describe has been sent out from the Board's offices.

Possibly the confusion you refer to among your inquirers stems out of a study by the Federal Reserve Bank of Richmond. That Bank recently addressed an inquiry to 44 banks in its district, 21 of which are member banks and 12 of which are National Banks. I understand our staff has been in touch with Mr. Abramson of your office on this question and Mr. Tynan Smith is prepared to provide him with any further details that may be of interest to you.

The Board always welcomes a full interchange of information on research planned and underway in the field of banking structure and markets as well as in other fields of mutual interest. For your information, I am enclosing a copy of a bibliography of studies in banking markets recently prepared by our staff.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

July 1, 1963.



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

Dear Mr. Chairman:

The staff of the Federal Deposit Insurance Corporation has indicated informally that the staff of your Committee would like to see copies of applications that were filed during the year 1961 under the Bank Merger Act of 1960 (section 18(c) of the Federal Deposit Insurance Act as amended). It is understood that among the copies of applications your staff wishes to see are those in which the continuing bank would be a State member bank of the Federal Reserve System and which, therefore, were filed with the Board of Governors of the Federal Reserve System. The Board sent copies of such applications relating to State member banks of the Federal Reserve System to the FDIC, Comptroller of the Currency, and Department of Justice in connection with the statutory provision for the Board in such cases to obtain reports from those agencies on the competitive factors involved.

Accordingly, copies of these applications relating to State member banks could be made available to your Committee either by one of those agencies, or directly by the Board. In the interest of convenience for all concerned, it might be simpler for the Board to make them available and the Board is prepared to do so or to have them provided otherwise, as you might prefer.

In the relatively few instances in which the Board orders a public hearing or public oral presentation of views with respect to a proposed merger, it makes the application available for public inspection, except such portions thereof as to which the Board finds that disclosure would not be in the public interest. The Board also publishes certain information relating to mergers in connection with its actions on the individual applications. In other respects, however, the Board attempts insofar as practicable to avoid disclosing unpublished information concerning the business or operations of individual banks and particularly of individual bank customers, and it would hope that the information in the applications could continue to be treated in this manner.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

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Item No. 3
6/25/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 25, 1963.

Mr. George H. Ellis, President,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Ellis:

The Board of Governors has reviewed and accepts
the budget of the Federal Reserve Bank of Boston for the
last half of 1963, as submitted with your letter of May 15,
1963.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



Item No. 4
6/25/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



June 25, 1963

CONFIDENTIAL (FR)

Mr. Jack Tarver, Chairman,
Federal Reserve Bank
of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Tarver:

With reference to your letter of May 30, 1963 and Mr. Bryan's letter of June 14, the Board approves the payment of salary to Mr. Richard A. Sanders as Associate General Auditor of the Federal Reserve Bank of Atlanta at the rate of \$15,250 per annum, effective as of this date through December 31, 1963.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 5
6/25/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 25, 1963

Mr. Joseph R. Campbell, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia 1, Pennsylvania.

Dear Mr. Campbell:

In accordance with the request contained in your letter of June 19, 1963, the Board approves the designation of the following employees as special assistant examiners for the Federal Reserve Bank of Philadelphia for the purpose of participating in examinations of State member banks:

Douglas E. Spotts
John M. Lavelle
Joseph F. Moritz
H. Wayne Hillborn

Dominic L. Matteo
Thomas J. Quinn
Edward J. Rogers
Joseph A. Santry

Appropriate notations have been made on our records of the names to be deleted from the list of special assistant examiners heretofore approved for your bank.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

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Item No. 6
6/25/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 26, 1963

Mr. John L. Nosker, Vice President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Nosker:

In accordance with the request contained in your letter of June 17, 1963, the Board approves the designation of A. Franklin Traylor, Jr. as a special assistant examiner for the Federal Reserve Bank of Richmond for the purpose of participating in examinations of State member banks.

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. 7
6/25/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



June 25, 1963

Mr. L. F. Mills, Vice President,
Federal Reserve Bank of Kansas City,
Kansas City 6, Missouri.

Dear Mr. Mills:

In accordance with the request contained in your letter of June 18, 1963, the Board approves the designation of the following employees as special assistant examiners for the Federal Reserve Bank of Kansas City for the purpose of participating in the 1963 examination of Commerce Trust Company, Kansas City, Missouri:

Bliss, Stephen	Mathews, F. J.	Trimble, Harry B.
Brown, Robert A.	Miller, Larry	Tritt, Francis
Bruner, Jerry	McArthur, James I.	Tuggle, Jesse E.
Cable, Willard	McCoy, Ronald	Unruh, Gerald
Cahill, Robert	McKee, Hugh	Walker, Lawrence
Carr, Gordon	Nash, Michael	Wangler, Arthur
Chinn, G. S.	Neville, William	Werner, Darrell
Cockrell, Paul E.	Novak, Frank J.	White, Donald I.
Coleman, P. E.	Parsons, John F.	Whitsitt, W. E.
Curtis, E. J.	Patterson, Charles	Willock, Edwin S.
Czerwinski, H. R.	Pope, Joseph M.	Wilson, James N.
Elliott, Jerry	Rhodes, Fred C.	Wisneiswki, Chester
Fisler, James V.	Rogers, Guy	Woolworth, Richard
Foley, Cécil	Searle, Joseph	Wray, Jack
Fowks, William	Sellenraad, Carl	Burns, Dorothy
Hain, W. M.	Shreeves, Jerry	Dawson, Patricia A.
Hamilton, Dave	Shull, Keith	Haines, Mary Helen
Hopper, Grady	Slover, Don	Hirsch, Catherine
Hughes, Wm. M.	Smith, Lewis	Johnson, Aileen
Lahm, Ronald	Spurlock, John B.	Lynn, Mary
LaRose, Sylvester	Stanley, Billy R.	Norris, Dorothy M.
Liggett, Robert	Swanson, Estus A.	Polfer, Edna
Luce, William	Tindall, Keith	Smart, Dorothy J.

It is noted that these designations will be terminated immediately upon completion of the examination.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.