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Minutes for July 31, 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 Wednesday, July 31, 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. Mitchell

Mr. Kenyon, Assistant Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Noyes, Director, Division of Research
and Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel
Administration
Mr. Holland, Adviser, Division of Research and
Statistics
Mr. Sammons, Adviser, Division of International
Finance
Mr. Conkling, Assistant Director, Division of
Bank Operations
Mr. Daniels, Assistant Director, Division of
Bank Operations
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Smith, Assistant Director, Division of
Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Spencer, General Assistant, Office of the
Secretary
Mr. Potter, Senior Attorney, Legal Division

Circulated or distributed items. The following items, copies
of which are attached to these minutes under the respective item numbers
indicated, were approved unanimously:

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	<u>Item No.</u>
Letter to Morgan Guaranty International Banking Corporation, New York, New York, granting permission to purchase additional shares of China Development Corporation, Taipei, Taiwan.	1
Letter to Wells Fargo Bank, San Francisco, California, approving a direct and indirect investment in bank premises to provide for various current and projected branch office construction programs.	2
Letter to the Federal Reserve Bank of Boston approving the payment of salary to Robert W. Eisenmenger as Director of Research at the rate fixed by the Bank's Board of Directors.	3

In connection with Item No. 2, Governor Balderston asked whether Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, might not also obtain the type of permission to invest in bank premises approved for Wells Fargo Bank, which would cover various current and projected branch office construction programs. Mr. Leavitt, in response, indicated that no request had been received. However, the matter could be discussed informally with the Philadelphia Reserve Bank, which might want to advise the member bank of the possibility that the Board would be receptive to such a request.

Mr. Goodman then withdrew from the meeting.

Questions submitted by House Banking and Currency Committee.

Pursuant to the understanding at the meeting on July 25, 1963, there had been distributed draft replies to questions 1-10 and 12-21 submitted by the House Banking and Currency Committee in connection with the appearance of five members of the Board before the Committee on July 22,

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1963. There also had been distributed a reply by Governor Mills to question number 11, which had been directed to him.

As the discussion of the proposed answers opened, it was noted that some suggestions of an editorial nature had been sent by members of the Board to Mr. Young, and it was understood that any additional suggestions of such nature likewise would be sent to Mr. Young.

Governor Mills commented that it was his feeling, on the draft answers, that there could be as many differences of opinion, more or less having to do with emphasis, as there were Board members involved. By and large, therefore, he would accept the replies as they stood.

This led to the question whether the answers, other than the answer to question 11, should be transmitted as replies of the Board generally or whether they should be transmitted as answers given by Chairman Martin. In this connection, Governor Mitchell pointed out that he had not participated in the July 22 hearing. While he regarded a number of the proposed answers as good, he would have reservations as to some of the statements, particularly the answer to the first question. For this and other reasons, it was concluded by the Board that it would be appropriate for the replies to the questions, except question 11, to be submitted as answers of Chairman Martin.

There followed a general discussion of the answers to several of the questions, particularly in the light of points raised by Governor Mills, Governor Mitchell, and Mr. Cardon. Attention also was drawn to the draft of answer to question 12, relating to the scope and implications

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of System open market transactions during the middle part of July. This answer, which had been drafted by the Manager of the System Open Market Account, contained both summary and detailed comments, and the Manager had raised the question--though without a negative view on his part--whether the detailed comments were considered appropriate for inclusion. The consensus of the Board was that there would appear to be some advantage to the inclusion of the detailed, as well as the summary, comments.

At the conclusion of the discussion, it was understood that the draft answers to questions 1-10 and 12-21 would be reviewed by the staff in the light of comments made at this meeting and others transmitted to Mr. Young, and that the replies to those questions would be transmitted to the Chairman of the House Banking and Currency Committee for inclusion in the hearing record in a final form satisfactory to Chairman Martin. There would also be transmitted the reply to question 11 prepared by Governor Mills.

Gold loan to Colombia. Mr. Sammons reported that the Federal Reserve Bank of New York had received a request from Banco de la Republica (Colombia) for a loan or loans, in the aggregate amount of \$30 million, secured by gold collateral, for a term of 180 days.

Following comments by Mr. Sammons on the Colombian situation, Chairman Martin suggested that Mr. Sammons be authorized to advise the New York Reserve Bank informally that, if the Bank's Board of Directors should approve the \$30 million loan, the Board of Governors would be

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prepared to approve the loan when the matter was presented formally. No objection being expressed, it was understood that Mr. Sammons would advise the New York Reserve Bank to such effect.

Mr. Sammons then withdrew from the meeting.

Proposed revision of Regulation A. At the meeting on July 24, 1963, there was discussion of a preliminary draft of a possible revision of Regulation A, Advances and Discounts by Federal Reserve Banks, that might be adopted if new legislation relating to the extension of Federal Reserve credit to member banks through the discount window should be enacted. At the conclusion of the discussion, the staff was instructed to prepare draft letters (a) to the Chairmen of the Senate and House Committees on Banking and Currency explaining the need for legislation and submitting a draft bill, and (b) to the Federal Reserve Banks informing them that the proposed legislation had been submitted and asking for their comments on the proposed revision of Regulation A.

Subsequent to that discussion, there had been distributed under date of July 29, 1963, a memorandum from Mr. Hackley submitting drafts of proposed letters to the Chairmen of the Banking and Currency Committees and to the Federal Reserve Banks.

Following comments by Mr. Hackley, there was discussion of the draft letters, particularly the proposed letter to the Banking and Currency Committee Chairmen. General agreement was expressed, but certain suggestions were made for changes.

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It was agreed, pursuant to a suggestion made by Chairman Martin, that the draft letter to the Committee Chairmen would be revised in the light of the discussion and brought back to the Board for further consideration. The proposed letter to the Reserve Banks was regarded as satisfactory.

Meetings of Reserve Bank discount officers. In connection with the foregoing discussion, Mr. Holland raised the question whether there would be objection on the part of the Board to the Reserve Bank discount officers holding periodic meetings for the purpose of promoting mutual understanding of the discount function and encouraging uniformity of standards in dealing with extensions of credit. He noted that the System Committee on Eligible Paper had recommended such meetings, that the Federal Reserve Banks had expressed interest, and that Mr. Scanlon, Chairman of the Presidents' Conference Committee on Discounts and Credits, had in mind instituting arrangements for the first of the periodic meetings if the Board saw no objection to such a procedure. It was contemplated, of course, that the Board would be represented.

Governor Shepardson expressed the view that a clear indication should be given that the Board favored such consultations, and Chairman Martin suggested that the Board give its unqualified approval.

There was general agreement with this view.

Messrs. Young, Cardon, Fauver, Noyes, Holland, Conkling, Daniels, Leavitt, and Potter then withdrew from the meeting.

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Procedure regarding salary adjustments at Chicago Reserve Bank (Items 4 and 5). At the meeting on June 28, 1963, it was understood that a memorandum would be prepared for Board consideration regarding the possibility of approving, by a single Board action rather than a series of such actions, the level of compensation of certain classes of trade and service employees at the Chicago Reserve Bank whose salaries were geared to a union wage agreement effective in two or more steps over a period of time.

There had now been distributed, under date of July 23, 1963, a memorandum from the Division of Personnel Administration recommending two changes in the procedure followed when salary rates were revised for building trade and service employees; namely, (1) that the Chicago Reserve Bank be required to request Board approval only if the negotiated rate was in excess of the applicable grade maximum, and (2) that when rates were in excess of the grade maximum, the Board approve adjustments for the length of the applicable contract rather than to the date of the next scheduled increase under such contract.

At the Board's request, Mr. Johnson commented on the Division's recommendations. After a discussion relating principally to the reasons for the procedure that had been followed in recent years, the recommendations contained in the memorandum of July 23 were approved unanimously.

A copy of the letter advising the Chicago Reserve Bank of the Procedure approved by the Board is attached as Item No. 4.

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Unanimous approval also was given to a letter to the Chicago Reserve Bank approving the payment of salary to an employee at a specified rate for time spent in performing the duties of marble setter, effective June 1, 1963. A copy of the letter is attached as Item No. 5.

Examination of Kansas City Reserve Bank. There had been circulated to the Board the report of the examination of the Federal Reserve Bank of Kansas City made by the Board's examining staff as of November 30, 1962, along with the usual accompanying memoranda.

At the Board's request, Mr. Smith reviewed the information disclosed by the examination of the Kansas City Reserve Bank. He noted, among other things, that the report of examination listed one reserve city bank and five country banks whose use of the discount window had tended to be extensive; particular reference was made by Mr. Smith to the borrowing record of two of those banks. He brought out that in a letter dated February 14, 1963, Chairman Scott of the Kansas City Bank had commented on this matter and noted that all of the six banks in question were heavy dispensers of credit to the farming and livestock industries. With the tendency in recent years toward larger farming units, more operating capital was required, as had been mentioned in a letter from the Reserve Bank to the Board dated September 21, 1961, and in the agricultural areas the principal source of such credit was the local bank. On the other hand, deposit increases in such banks had not kept pace with the larger

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credit demands, which made it necessary for some banks to come to the Reserve Bank frequently for credit. Chairman Scott maintained that such cases were carefully reviewed to determine that the borrowings, to the fullest extent practicable, were consistent with the general principles set forth in the foreword to Regulation A, Advances and Discounts by Federal Reserve Banks. The question, Mr. Smith indicated, was whether the matter should be pursued further at this time or whether the results of the next examination of the Reserve Bank should be awaited.

After consideration, it was understood, pursuant to a suggestion made by Chairman Martin, that on some mutually convenient occasion Governor Mills would discuss with President Clay the questions involved in the frequent use of the discount window by some member banks in the Tenth District.

There were no other matters disclosed by the examination of the Reserve Bank that appeared to require action on the part of the Board.

The meeting then adjourned.

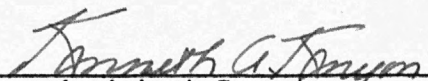
Secretary's Notes: On July 30, 1963, Governor Shepardson approved on behalf of the Board a letter to the Federal Reserve Bank of Richmond (attached Item No. 6) approving the designation of David C. Durrill as special assistant examiner.

Pursuant to the recommendation contained in a memorandum from the Division of Research and Statistics, Governor Shepardson today approved on behalf of the Board an increase in the basic

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annual salary of Loree Bernard from \$4,250 to \$4,565, with a change in title from Statistical Clerk to Statistical Assistant in that Division, effective August 4, 1963.


Assistant Secretary

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

Item No. 1
7/31/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 31, 1963

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

Gentlemen:

In accordance with the request and on the basis of the information furnished in your letter of July 2, 1963, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants consent for Morgan Guaranty International Banking Corporation to purchase and hold 4,250 additional ordinary shares, par value NT\$1,000 each, of the capital stock of China Development Corporation, Taipei, Taiwan, China, at a cost not to exceed approximately US\$112,625, provided such stock is acquired within one year from the date of this letter.

The Board's consent is granted upon condition that Morgan Guaranty International Banking Corporation shall dispose of its holdings of stock in the Chinese corporation, as promptly as practicable, in the event that the Chinese corporation should at any time (1) engage in issuing, underwriting, selling or distributing securities in the United States; (2) engage in the general business of buying or selling goods, wares, merchandise, or commodities in the United States except such as is incidental to its international or foreign business; or (3) otherwise conduct its operations in a manner which, in the judgment of the Board of Governors, causes the continued holding of its stock by Morgan Guaranty International Banking Corporation to be inappropriate under the provisions of Section 25(a) of the Federal Reserve Act or regulations thereunder.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 2
7/31/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 31, 1963

Board of Directors,
Wells Fargo Bank,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an investment of \$15,300,000, direct and indirect, in bank premises by Wells Fargo Bank. The amount approved represents a \$2,800,000 investment by Wells Fargo Bank and a \$12,500,000 indebtedness to be incurred by Wells Fargo Bank's affiliate, ATC Building Company.

This approval is given provided the funds are expended for improving existing bank premises or for beginning the construction of new branch offices within two years from the date of this letter. Your attention is called to the fact that ATC Building Company, as a wholly-owned subsidiary of Wells Fargo, can invest funds only in those assets eligible for investment by member State 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. 3
7/31/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 31, 1963

CONFIDENTIAL (FR)

Mr. George H. Ellis, President,
Federal Reserve Bank of Boston,
Boston, Massachusetts. 02106

Dear Mr. Ellis:

With reference to your letter of July 22, 1963, the Board of Governors approves the payment of salary to Mr. Robert W. Eisenmenger as Director of Research, Federal Reserve Bank of Boston, at the rate of \$17,000 per annum, for the period August 1 through December 31, 1963.

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. 4
7/31/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 5, 1963

Mr. C. J. Scanlon, President,
Federal Reserve Bank of Chicago,
Chicago, Illinois. 60690

Dear Mr. Scanlon:

Under present procedure, the Federal Reserve Bank of Chicago is required to request Board approval for the payment of each increase in salary to building trades and service employees. The Board has reviewed this procedure and believes the statutory requirement of approving salaries, as it applies to these employees, may be fulfilled by giving the Federal Reserve Bank of Chicago continuing authority, effective immediately, to adjust salaries up to the negotiated rates either announced or reported by the Building Managers' Association of Chicago, providing that these rates do not exceed the maximums of grades in which these employees are classified under the Bank's Classification and Salary Administration Plan.

In the event such rates exceed grade maximums, Board approval will be required; however, the Board will consider approving salary adjustments for the length of contracts of more than one year's duration rather than approving adjustments for the first year of the contract, as at present.

It is understood that the Bank will continue to pay the per cent of contract rate currently applied, as shown in the following schedule:

Building Trades - 90 per cent of union rates, except the Head Carpenter, Head Painter, and Head Electrician, who are paid 100 per cent of union rates in recognition of their higher level of responsibility, and a Class B Electrician, in recognition of night employment.

Building Service and Maintenance - 100 per cent of union rates.

Marble Setter - 100 per cent of hourly rate, to be paid only for time the Marble Maintenance Man spends on duties of a Marble Setter.

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. 5
7/31/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 31, 1963



CONFIDENTIAL (FR)

Mr. H. J. Newman, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Newman:

In accordance with the request contained in your letter of June 25, 1963, the Board of Governors approves the payment of salary by the Federal Reserve Bank of Chicago to the incumbent of the position Marble Maintenance Man at the rate of \$4.65 per hour for time spent performing Marble Setter duties, effective June 1, 1963.

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
7/31/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 31, 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 July 23, 1963, the Board approves the designation of David C. Durrill as a special assistant examiner for the Federal Reserve Bank of Richmond for the purpose of participating in examinations of State member banks.

The authorization heretofore given your bank to appoint Mr. Durrill as an assistant examiner is hereby canceled.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.