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Minutes for September 19, 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

mw

Gov. Mills

[Signature]

Gov. Robertson

R.

Gov. Balderston

ccrb

Gov. Shepardson

[Signature]

Gov. Mitchell

[Signature]

Minutes of the Board of Governors of the Federal Reserve
System on Thursday, September 19, 1963. The Board met in the Board
Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Johnson, Director, Division of
Personnel Administration
Mr. Connell, Controller
Mr. Koch, Associate Director, Division of
Research and Statistics
Mr. Sammons, Adviser, Division of International
Finance
Mr. Kiley, Assistant Director, Division of
Bank Operations
Mr. Benner, Assistant Director, Division of
Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Sprecher, Assistant Director, Division of
Personnel Administration
Mrs. Semia, Technical Assistant, Office of the
the Secretary
Mr. Young, Senior Attorney, Legal Division
Mr. Partee, Chief, Capital Markets Section,
Division of Research and Statistics
Mr. Fisher, Senior Economist, Division of
Research and Statistics

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 the Federal Reserve Bank of New York interposing no objection to leaves of absence for certain employees while serving on special assignment at the Treasury Department, as approved by the Bank's Board of Directors.	1
Letter to Airline State Bank of Houston, Houston, Texas, granting its request for permission to maintain reduced reserves.	2
Letter to the Presidents of all Federal Reserve Banks requesting that certain expenses not directly controlled by the Banks be listed and subtotaled separately in submitting to the Board the Reserve Bank budgets for the first half of 1964.	3
Letter to The Union Commerce Bank, Cleveland, Ohio, approving the establishment of a branch in Westlake.	4
Letter to The Union Commerce Bank, Cleveland, Ohio, approving the establishment of two branches at Euclid Avenue and East 276th Street, Euclid.	5
Letter to Wells Fargo Bank, San Francisco, California, approving an extension of time to establish a branch in Sacramento County.	6
Letter to the Bureau of the Budget reporting on a draft bill to expand the powers of Federal savings and loan associations.	7

Hearings on pending legislation (Item No. 8). At yesterday's meeting there was a discussion of various bills that were to be considered by the House Committee on Banking and Currency at forthcoming hearings. Chairman Martin had been invited to testify before the Committee on September 24, 1963. At today's meeting, the discussion afforded further crystallization of the Board's views, as follows:

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A majority of the Board, as indicated yesterday, was opposed to H.R. 5845, which, among other things, would permit banks, within specified limits, to underwrite and deal in so-called "revenue bonds" of States and political subdivisions.

Secretary's Note: A letter reflecting an unfavorable view was sent on September 24, 1963, to Chairman Robertson of the Senate Committee on Banking and Currency in response to his request for a report on S. 828, a bill similar to H.R. 5845. A copy of the letter is attached as Item No. 8.

In regard to H.R. 8247, which would raise the limit on loans by a national bank to a single borrower from 10 per cent to 20 per cent of the bank's capital and surplus, question was raised by Governor Balderston whether the Board might want to suggest that the present 10 per cent limitation be extended to include undivided profits in addition to capital and surplus. The view was expressed, however, that the addition of undivided profits to the base of the limitation would have only a minor effect, and that in any event the Board would do well at this juncture to stand with current statutory limitations rather than to suggest moving toward relaxation of standards. There was general agreement, therefore, that the Board should take a position in opposition to the enactment of H.R. 8247.

It was also agreed that a similar position should be taken in regard to H.R. 7878, which would raise the limits on conventional real estate loans by national banks.

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As to H.R. 8230, which would authorize national banks to lend more liberally on forest tracts, in a letter dated June 12, 1963, the Board made a generally adverse report to the Bureau of the Budget on the bill in draft form. However, this legislative proposal was discussed again by the Board at its meeting on August 8, 1963. At the conclusion of further discussion at today's meeting, it was agreed to take the position that the Board would not recommend favorable action on the proposal unless further study revealed a need for such legislation.

With regard to H.R. 8245, which would broaden the powers of Federal savings and loan associations in certain respects, it was agreed to reaffirm the recommendation in the Board's letter of August 9, 1963, to the Bureau of the Budget, to the effect that "the Board believes that such legislation should not be considered until it is determined what action Congress takes on H.R. 7404. The latter bill, based on the report of the Committee on Financial Institutions, provides for strengthening the safety and liquidity of insured institutions and safeguarding against conflicts of interest, while also raising the limit on deposit and share insurance."

Mr. Cardon noted that H.R. 8245 included several minor provisions for expansion of powers of Federal savings and loan associations in specific respects to which the Board might not object. However, discussion disclosed the general view that except with respect to provisions designed to improve the efficiency of operations, such as a provision

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that would extend the Bank Service Corporation Act to allow savings and loan associations to establish their own service corporations, the Board should stand upon the position that any broadening of the powers of savings and loan associations should be preceded by strengthening of supervisory and regulatory controls over such organizations.

It was understood that the testimony to be presented before the House Banking and Currency Committee would be prepared in a manner consistent with the discussion at today's and yesterday's meetings and that it would be presented in a final form satisfactory to Chairman Martin.

All of the members of the staff except Messrs. Sherman, Kenyon, Young (Adviser to the Board), Johnson, and Sprecher then withdrew from the meeting.

Foreign travel (Items 9 and 10). There had been distributed two memoranda from Mr. Young dated September 17, 1963, recommending, for reasons indicated therein, foreign travel by Daniel H. Brill, Adviser in the Division of Research and Statistics, and Samuel I. Katz, Associate Adviser in the Division of International Finance.

The recommendations contained in the memoranda, copies of which are attached as Items 9 and 10, respectively, were approved unanimously.

Meeting of Central Bank Technicians. Governor Mitchell referred to the meeting of Technicians of Central Banks of the American Continent to be held next month in Rio de Janeiro, Brazil, and noted that, as indicated earlier, he had been giving some thought to attending the meeting

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as an observer. In considering this matter, he and Mr. Young had reviewed the format of these meetings and considered what might be done to make them more effective. In the absence of objection, he would propose that he and Mr. Young discuss the subject with Mr. Javier Marquez, Director of the Center for Latin American Monetary Studies, when the latter was in Washington for the annual meetings of the International Monetary Fund and the International Bank for Reconstruction and Development. Then, if it appeared desirable in light of such discussion, he and Mr. Young might attend the meeting in Rio de Janeiro for the purpose of pursuing the matter further.

After consideration of this proposal, Chairman Martin suggested that Governor Mitchell be authorized to discuss the subject with Mr. Marquez and to decide whether it would seem worth while for him (Governor Mitchell) and Mr. Young to make the trip to Rio de Janeiro, with the understanding that in the exploratory discussions no hard and fast commitments would be entered into without bringing the matter back to the Board for further consideration.

There was general agreement with Chairman Martin's suggestion.

Mr. Young then withdrew from the meeting.

Drafts of letter to Comptroller. Pursuant to a suggestion made at an earlier meeting of the Board in executive session, there had been distributed to the members of the Board alternative drafts of a letter that might be sent to the Comptroller of the Currency on the subject of interagency cooperation.

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At the suggestion of the Chairman, however, the question of the sending of such a letter was deferred for further consideration at a later date.

Salaries of Reserve Bank officers (Items 11 and 12). There had been distributed to the Board a draft of letter to the Chairmen and Presidents of all Federal Reserve Banks (with a technical variation in the case of New York) setting forth guidelines for application in submitting for Board approval proposed salary increases for officers of the Federal Reserve Banks, other than the President and First Vice President, effective January 1, 1964.

Following comments by Governor Mitchell, Chairman of the Board's Committee on Organization, Compensation, and Building Plans, the proposed letter was approved unanimously, subject to the incorporation of certain editorial changes suggested by Governor Balderston. Attached as Item No. 11 is a copy of the letter sent to the Chairmen and the Presidents of all Federal Reserve Banks except New York pursuant to this action; attached as Item No. 12 is a copy of the letter sent to the Chairman and the President of the New York Reserve Bank.

Top grades in Reserve Bank salary structures. Governor Mitchell referred to a file currently in circulation to the Board concerning a proposed revision of the salary structure applicable to employees, other than officers, of the Federal Reserve Bank of Chicago, and to correspondence from President Clay concerning a proposed revision of the structure

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of the Kansas City Bank. The problem on which Governor Mitchell focused attention was that of attracting and retaining professional personnel, such as economists, through providing adequate headroom at the non-officer level. He did not profess to know the exact answer to the problem, but he saw a need to do something of the nature that President Clay was suggesting. (The Kansas City proposal went further than the Chicago proposal in providing headroom at the upper end of the salary structure.)

Governor Shepardson then outlined a possible solution that he had been considering, which involved essentially the creation of additional grades at the upper end of the salary structure for certain types of positions, with a top Systemwide limit of, say, \$17,500.

After discussion, during which Mr. Johnson outlined certain reasons that in his opinion tended to cast doubt on the need for additional grades in the salary structure, Chairman Martin suggested that Governor Shepardson be asked to work with the Division of Personnel Administration on a memorandum that would present for the consideration of the Board the arguments for and against a plan such as Governor Shepardson had outlined. It was agreed that this procedure would be followed.

Messrs. Johnson and Sprecher then withdrew from the meeting.

Foreign investments in United States. Chairman Martin noted the formation by the Administration of a group charged with studying

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possibilities for encouraging foreign investments in the United States. He understood that the Federal Reserve Bank of New York, on request, had arranged to make office space available to the group, and that Vice President Coombs would be the principal liaison between the Reserve Bank and the group. A request had also been received that someone be designated by the Board to work with the group in Washington.

Chairman Martin suggested that Mr. Young, Adviser to the Board and Director, Division of International Finance, be designated as the Board's representative to work with the group, and that Mr. Young be authorized to select other members of the Board's staff from time to time to work with the various committees that would be engaged on this project.

There was agreement with this suggestion.

Meetings of discount officers. Chairman Martin noted that the Conference of Presidents of the Federal Reserve Banks, at its meeting on September 9, 1963, had moved to implement a proposal for meetings of the Reserve Bank discount officers under the auspices of the Conference Committee on Discounts and Credits. He suggested that Mr. Holland, Adviser in the Division of Research and Statistics, be designated as the member of the staff who would serve as the Board's regular representative to the discount officers' meetings.

There was agreement with this suggestion, subject to the understanding that Governor Shepardson would check with Mr. Noyes, Director

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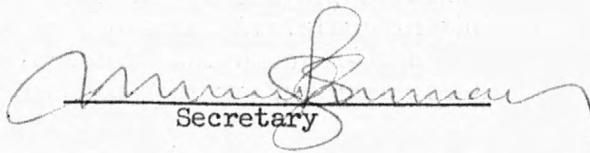
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of the Division of Research and Statistics, before Mr. Holland's designation was announced.

Secretary's Note: After checking, Governor Shepardson informed the Secretary that there appeared to be no reason why the designation should not be announced.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum from the Division of Personnel Administration, Governor Shepardson today approved on behalf of the Board an increase in the basic annual salary of Lois A. Chandler, Personnel Clerk in that Division, from \$4,030 to \$4,250, effective September 29, 1963.


Secretary

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

Item No. 1
9/19/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 19, 1963

Mr. Thomas M. Timlen, Jr., Secretary,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Timlen:

Reference is made to your letter of September 6, 1963, advising that the Federal Reserve Bank of New York has granted leaves of absence with pay to Bruce K. MacLaury, Manager, Foreign Department, and Frederick Schadrack, Jr., Special Assistant in the Foreign function, while serving on a special assignment at the Treasury Department for periods of three to four weeks, commencing September 3.

The Board of Governors interposes no objection to the leaves granted Messrs. MacLaury and Schadrack in connection with these assignments and other arrangements approved by your Board of Directors, as reported in your letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 2
9/19/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 19, 1963

Board of Directors,
Airline State Bank of Houston,
Houston, Texas.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of Dallas, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Airline State Bank of Houston to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective as of the date the bank is admitted to membership under a national bank charter as Airline National Bank of Houston.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



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Item No. 3

9/19/63

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

S-1890

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 19, 1963.



Dear Sir:

In the light of experience in recent years with the various forms of Reserve Bank budgets, the Board believes that the data in these budgets would be more meaningful if submitted in a form showing separately the expenses not directly controlled by the Banks. The following items may be said to fall in this category:

- Assessment for Board expenses
- Cost of Federal Reserve currency
- Depreciation
- Taxes on real estate
- Inter-Bank expenses

The Board therefore requests that, beginning with the budgets for the first half of 1964, the amounts provided for the above items be listed and subtotaled separately as "Expenses not directly controlled by Bank". No explanations need be made of changes in these expenses.

Otherwise the budgets for the first half of 1964 may be prepared in accordance with the Board's letter of February 7, 1963 (S-1863). The Board hopes, however, that the Banks will continue to experiment with the use of a current rate of expenditures as a budget base, since there is considerable belief that this procedure will ultimately prove to be the most efficient method for assembling and analyzing the budget material.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman".

Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Item No. 4
9/19/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 19, 1963

Board of Directors,
The Union Commerce Bank,
Cleveland, Ohio.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by The Union Commerce Bank, Cleveland, Ohio, in the vicinity of the intersection of Detroit and Dover Center Roads, Westlake, Ohio, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 5
9/19/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



September 19, 1963

Board of Directors,
The Union Commerce Bank,
Cleveland, Ohio.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of two branches by The Union Commerce Bank, Cleveland, Ohio, in the vicinity of the northeast corner of Euclid Avenue and East 276th Street, Euclid, Ohio, provided the branches are established within one year from the date of this letter. It is understood that one of the two branches is to be a drive-in facility located on a parking area adjacent to the other branch, but separated by property over which the bank has no control.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branches; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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Item No. 6
9/19/63

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 19, 1963

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

Gentlemen:

The Board of Governors of the Federal Reserve System extends to December 20, 1963, the time within which Wells Fargo Bank may establish a branch in the vicinity of the intersection of Winding Way and Manzanita Avenue, in an unincorporated area of Sacramento County, 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.

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Item No. 7
9/19/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 19, 1963

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

Dear Mr. Hughes:

This is in response to your request of September 3, 1963, for the Board's views on a revised draft of legislation to amend section 5 of the Federal Home Owners Loan Act of 1933, the Internal Revenue Code of 1954, and section 689 of the Act of March 3, 1901, submitted by the Federal Home Loan Bank Board.

While it is not entirely clear, it appears that the revised draft would in effect permit savings and loan associations that are members of the Federal Home Loan Bank System to act as trustees with respect to qualified stock bonus, pension, and profit-sharing plans described in Section 401 of the Internal Revenue Code of 1954. If the Board's understanding of the effect and purpose of the revised draft is correct, then the proposed legislation is subject to the same objections stated in the Board's report of March 6, 1963, on the earlier draft. In that report the Board stated in part as follows:

"If it may be properly assumed that the intended effect of this proposed legislation is to permit savings and loan associations to create trustee share accounts on behalf of self-employed persons pursuant to the 1962 Act, it would seem to the Board desirable that the statutory authority be so limited. The provisions of the draft bill would empower a savings and loan association to accept and administer appointments as trustee of any stock bonus, pension, or profit-sharing trust which had qualified under the provisions of section 401 of the Internal Revenue Code. Fiduciary appointments of such kinds frequently impose difficult administrative responsibilities demanding special experience and skills on the part of the trustees.

Mr. Phillip S. Hughes

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"Furthermore, full power to act as trustee of such appointments would be conferred upon savings and loan associations directly by statute, unlimited by any requirement that control over the exercise of the authority be reposed in an appropriate supervisory agency which, before permitting the exercise of statutory trust powers, would be required to consider the qualification of each association to discharge satisfactorily the related fiduciary functions and investment responsibilities. Supervisory control of such nature is a common legal requirement with respect to commercial banks which seek to exercise statutory fiduciary powers. There appears no sound reason for treating savings and loan associations differently."

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 8
9/19/63

OFFICE OF THE CHAIRMAN

September 24, 1963

The Honorable A. Willis Robertson,
Chairman,
Committee on Banking and Currency,
United States Senate,
Washington , D. C. 20510

Dear Mr. Chairman:

This is in response to your request for the views of the Board of Governors on S. 828, "To assist cities and States by amending section 5136 of the Revised Statutes, as amended, with respect to the authority of national banks to underwrite and deal in securities issued by State and local governments, and for other purposes."

The Board does not favor enactment of this bill. Essentially, the Board's position is that no significant reduction in borrowing costs for municipalities would result from enactment of the bill, and that the benefits to be derived from maintaining the principle of separation of commercial banking from the securities business outweigh the limited benefits the bill might produce.

The Board believes, however, that legislation clarifying the meaning of the term "general obligation" as used in section 5136 of the Revised Statutes is urgently needed.

The Board's views on this bill and certain other measures relating to national banks and savings and loan associations are set forth in the attached statement I am presenting today to the House Committee on Banking and Currency.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Attachment

September 17, 1963.

To: Board of Governors
From: Ralph A. Young
Subject: Foreign travel for Mr. Brill

It is recommended that Daniel H. Brill, Adviser, Division of Research and Statistics, be authorized to attend the meeting of central bank economists to be held in Basle, October 12-14. The principal theme of the meeting will be "The Structure and Functioning of the Capital Market in Individual Countries." Mr. Brill will prepare a paper for advance submission. Mr. George Garvy has been designated to attend as representative of the Federal Reserve Bank of New York.

We have also been invited by the Council of Economic Advisers to have Mr. Brill attend a meeting of the Task Force of the Economic Policy Committee of the OECD to discuss the economic outlook for next year. Mr. D. Lusher of the Council staff will present the paper for the United States and Mr. Brill would attend primarily as a consultant. This meeting is scheduled to be held in Paris on October 21 and possibly carry over to October 22.

For the intervening time between the end of the BIS meeting and the beginning of the EPC meeting, it would be profitable if Mr. Brill were authorized to visit the Bank of England and the National Institute of Economic and Social Research to discuss some new developments in research methodology.

R.A.Y.

September 17, 1963.

To: Board of Governors
From: Ralph A. Young
Subject: Proposed European travel

It is recommended that Mr. Samuel I. Katz, Associate Adviser, Division of International Finance, be authorized to attend the two following meetings in Europe:

1. A meeting of the WP 2, OECD, Paris, November 4-5
2. A meeting at the Bank for International Settlements, to discuss matters pertaining to the Euro-dollar market, Basle, November 9-11*

It is also recommended that he spend the time between the two meetings in London to study foreign exchange conditions and other matters and the days through November 12-15 in Rome to explore the possibility of setting up a special air mail letter giving us certain statistics, similar to technical information we currently receive in similar manner from other European central banks.

Mr. Katz would also like authorization to spend an additional week, November 18-23, in London. The main reason for this additional time would be to renew some of the contacts he made during his Rockefeller year in London (1957-58) which he has since not been able to do. Renewal of these contacts seems to be particularly timely at this moment in view of the forthcoming 1964 British elections.

R.A.Y.

*Other participants at this meeting will include Fred Klopstock of the Federal Reserve Bank of New York and David Eastburn of the Federal Reserve Bank of Philadelphia. This would be the same Federal Reserve representation as at last year's Basle meeting on the same subject.



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

3262
Item No. 11
9/19/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 19, 1963.

CONFIDENTIAL (FR)

LETTER SENT TO THE CHAIRMEN AND PRESIDENTS OF ALL FEDERAL
RESERVE BANKS EXCEPT NEW YORK

In a letter dated October 5, 1962, the Board advised of revisions in policy, effective January 1, 1963, for setting compensation levels of officers of the Federal Reserve Banks other than the Presidents and First Vice Presidents. These revisions were made to assist the Banks in setting appropriate compensation for their official staffs, and in retaining and attracting younger men with potential for future advancement. The following guidelines were suggested for use by the Boards of Directors in proposing to the Board of Governors changes in officer compensation:

1. Basis of Increase and Rate of Progression. Increases for official staff should not be automatic but strictly on merit.
2. Selectivity. The Board believes that careful selectivity should be exercised and suggests that in any given year no more than 40 per cent of the officer staff at each Reserve Bank should receive salary increases. This would be exclusive of promotions, which are customarily accompanied by appropriate salary adjustments. Unusual situations will occur, and at such times supportable exceptions will be given consideration.
3. Annual Review. The Board continues to believe that except for increases incident to promotions, requests for approval of salary changes should be made at the time of the annual review; at other times, only under justifiable circumstances.

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After careful consideration of recommendations and suggestions, the Board believes these guidelines should apply to salary proposals effective January 1, 1964, except that increases to officers below the minimum of Group D should be excluded from the 40 per cent calculation. In determining the 40 per cent, the officers who have been given below-minimum increases will not be included in either the numerator (number of officers increased) or the denominator (total number of officers).

The exclusion of promotions from the numerator will continue with the stipulation that, to be eligible, a promotion must include a concurrent change in title and responsibilities.

The exclusion of salary increases for the General Auditor and Assistant General Auditor from the 40 per cent limitation that was the procedure for the transitional year 1963 will not continue.

Salaries of officers proposed for the year beginning January 1, 1964, should be submitted to the Board of Governors not later than November 15, 1963. The Board's Committee on Organization, Compensation, and Building Plans (comprised of Governor Mitchell as Committee Chairman and Governors Balderston and Shepardson) believes that, as in the past, it would be mutually helpful if a preliminary, informal list of proposed salaries is forwarded. The Committee will be happy to discuss this with the President of your Bank when in Washington at any time. Arrangements for a meeting may be made through Governor Mitchell's office.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

TO THE CHAIRMEN AND PRESIDENTS OF ALL FEDERAL RESERVE BANKS,
EXCEPT NEW YORK

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

3264
Item No. 12
9/19/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 19, 1963.

CONFIDENTIAL (FR)

LETTER SENT TO THE CHAIRMAN AND PRESIDENT OF THE
FEDERAL RESERVE BANK OF NEW YORK

In a letter dated October 5, 1962, the Board advised of revisions in policy, effective January 1, 1963, for setting compensation levels of officers of the Federal Reserve Banks other than the Presidents and First Vice Presidents. These revisions were made to assist the Banks in setting appropriate compensation for their official staffs, and in retaining and attracting younger men with potential for future advancement. The following guidelines were suggested for use by the Boards of Directors in proposing to the Board of Governors changes in officer compensation:

1. Basis of Increase and Rate of Progression. Increases for official staff should not be automatic but strictly on merit.
2. Selectivity. The Board believes that careful selectivity should be exercised and suggests that in any given year no more than 40 per cent of the officer staff at each Reserve Bank should receive salary increases. This would be exclusive of promotions, which are customarily accompanied by appropriate salary adjustments. Unusual situations will occur, and at such times supportable exceptions will be given consideration.
3. Annual Review. The Board continues to believe that except for increases incident to promotions, requests for approval of salary changes should be made at the time of the annual review; at other times, only under justifiable circumstances.

-2-

After careful consideration of recommendations and suggestions, the Board believes these guidelines should apply to salary proposals effective January 1, 1964, except that increases to officers below the minimum of Groups D, E, and F should be excluded from the 40 per cent calculation. In determining the 40 per cent, the officers who have been given below-minimum increases will not be included in either the numerator (number of officers increased) or the denominator (total number of officers).

The exclusion of promotions from the numerator will continue with the stipulation that, to be eligible, a promotion must include a concurrent change in title and responsibilities.

The exclusion of salary increases for the General Auditor and Assistant General Auditor from the 40 per cent limitation that was the procedure for the transitional year 1963 will not continue.

Salaries of officers proposed for the year beginning January 1, 1964, should be submitted to the Board of Governors not later than November 15, 1963. The Board's Committee on Organization, Compensation, and Building Plans (comprised of Governor Mitchell as Committee Chairman and Governors Balderston and Shepardson) believes that, as in the past, it would be mutually helpful if a preliminary, informal list of proposed salaries is forwarded. The Committee will be happy to discuss this with the President of your Bank when in Washington at any time. Arrangements for a meeting may be made through Governor Mitchell's office.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

TO THE CHAIRMEN AND PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

(See notation on preceding page.)