Minutes for November 13, 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 M

Gov. Mills

Gov. Robertson R

Gov. Balderston CCB

Gov. Shepardson

Gov. Mitchell

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, November 13, 1963. The Board met in the Board Room at 9:30 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. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel Administration
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Sprecher, Assistant Director, Division of Personnel Administration
Mr. Spencer, General Assistant, Office of the Secretary
Mr. Hart, Personnel Assistant, Division of Personnel Administration

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on November 8, 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.

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

	Item No.
Letter to The Peoples Banking Company, McComb, Ohio, approving an extension of time to withdraw from membership in the Federal Reserve System.	1
Letter to the Federal Reserve Bank of Kansas City with respect to the withdrawal of deposits by common depositors of banks that propose to merge.	2
Letter to the Federal Reserve Bank of Boston approving the payment of salaries to John J. Barrett, Assistant Cashier, and Harry R. Mitiguy, Bank Relations Officer, at rates fixed by the Bank's Board of Directors.	3
Letter to the Presidents of all Federal Reserve Banks advising of the Board's consent to the opening and maintenance by the New York Reserve Bank of an account with the Bank of Japan payable in foreign currency.	4

Salary structure of Richmond Reserve Bank (Item No. 5). There was discussion at the Board meeting on November 1, 1963, of a proposed revision of the salary structures of the Federal Reserve Bank of Richmond and the Charlotte and Baltimore Branches during which the Board indicated that before it acted upon the proposal it wished to have more information about the proposed salary structure for the head office and the Charlotte Branch, particularly the need for adjustment to the grade minimums and the need for a higher structure for purposes of employing new personnel. In this connection, it was understood that the Director of the Division of Personnel Administration would visit the Richmond Reserve Bank and the Charlotte Branch.

There now had been distributed under date of November 8, 1963, a memorandum from Mr. Johnson in which he reported upon his trip. The memorandum discussed in some detail certain problems at the Richmond Reserve Bank and the Charlotte Branch, noting that the situation differed at the Branch and the head office. At the Charlotte Branch there existed a transition period between (a) the exclusive use of proof machines to function checks and (b) the use of high-speed check functioning equipment and the partial use of proof machines. This situation had necessitated an increase in the staff of employees in the Transit Department in order to keep check holdover at a minimum. During this period, the Branch had experienced difficulty in recruiting because of a tight employment market for competent clerical employees and also because some applicants were not interested in employment that would involve Saturday and night-shift work. The Bank believed that more qualified applicants would be interested if the salary rates were higher. With regard to increasing to grade minimums, the Charlotte Branch had furnished a list of the individual increases, an analysis of which showed that had the structure change been made after the year-end salary review, 75 per cent would have been at or above the proposed new minimums and no adjustment would have been necessary. It was therefore a matter of timing that influenced the dollar amount necessary to bring those employees to the minimum of their grade.

The memorandum went on to point out that another factor influencing the proposed salary structure was the new minimum wage law. Under the new

law, the minimum annual wage was $2,600, which was the minimum for grade 2. By applying that rate as the new minimum of grade 1, the relationship of the next higher grades had to be progressively higher.

Turning to the picture at the Richmond Reserve Bank, it was noted that the Bank had a problem in hiring typists and stenographers because of a tight employment market for those skills. Using present starting salaries, it was difficult to fill requisitions. Also, the increase of grade 1 to the minimum salary under the new wage law was reflected in the next four grades, as those grades felt the upward tilt of the line from this increased minimum. At the Richmond Bank, there existed the same timing factor as at the Charlotte Branch. If the proposed salary structure had been delayed a few months, many of the employees below grade minimum would have received probation-completion increases that would have moved them up to or above the proposed structure minimum.

In conclusion, the memorandum stated that there appeared to be a need for the increased salary structure at both the head office and the Charlotte Branch, the reasons for which were summarized as follows:

1. Need for quality and greater selectivity in clerical employment, particularly Transit Department proof machine operators at Charlotte.

2. To meet market rates for typists and stenographers at Richmond.

3. To recognize that the application of the $1.25 minimum wage to the bottom of the structure moved up slightly the next four grades.

4. The timing of a structure change coincident with the regular date for progress increases would result in a large number of to-minimum increases. If the structure change had been timed to take effect in March, rather than at the end of December, the total necessary to bring salaries to new minimums would have been much less.

At the Board's request, Mr. Johnson commented in supplementation of the information contained in the memorandum of November 8, and responded to several questions.

During this discussion, Governor Mitchell indicated that the information that had been presented in the memorandum answered the questions that he had originally when this matter was discussed.

The Board then approved unanimously the revisions of the salary structures at the Federal Reserve Bank of Richmond and the Charlotte Branch effective December 27, 1963, and at the Baltimore Branch effective December 23, 1963. There is attached, as Item No. 5, a copy of the letter sent to the Federal Reserve Bank of Richmond pursuant to this action.

Messrs. Molony, Assistant to the Board, and Noyes, Director, Division of Research and Statistics, entered the room at this point.

Salary survey and salary structure of Kansas City Reserve Bank (Items 6 and 7). At the meeting of the Board on October 9, 1963, there was discussion of a proposed revision of the salary structure of the Kansas City Reserve Bank. There had been distributed to the Board before that meeting a memorandum dated October 4, 1963, from the Division of Personnel Administration with regard to the proposal; the head office

and Denver Branch were combined in one structure and the Oklahoma City and Omaha Branches in another. The Personnel Division recommended that the Board approve the ranges for the head office-Denver structure in grades 1 through 11. The Division also recommended that, pending the outcome of a study of market salaries for high-level professional positions, the Board of Governors request the Board of Directors of the Kansas City Bank to reconsider the proposed ranges in grades 12 through 16 of the head office-Denver structure with a view to setting a rate of increase no greater than the percentage increase recommended for grade 11 in the Bank's original proposal, indicating to the Bank that if the resulting structure for grades 12 through 16 was increased by this constant percentage, the Board would be prepared to approve such a structure for those grades. However, at the conclusion of discussion on October 9, it was decided to approve the proposed revision insofar as it related to the 16 grades of the Oklahoma City-Omaha structure and grades 1 through 11 of the head office-Denver structure, but to defer action on the proposed revised ranges in grades 12 through 16 of the head office-Denver structure pending completion of the study of market salaries being conducted by Governor Shepardson and the Division of Personnel Administration pursuant to the understanding at the meeting of the Board on September 19, 1963.

There had now been distributed a memorandum dated November 8, 1963, from the Division of Personnel Administration reporting on its special survey of salaries paid in the national market for positions

comparable with Reserve Bank positions classified in grades 12 through 16. This memorandum included a recommendation with regard to the proposed revision of the Kansas City Reserve Bank salary structure for grades 12 through 16.

The memorandum presented the following conclusions: (1) On an absolute basis (with few exceptions) Reserve Bank salary structures and the national market levels were reasonably close in grades 12 through 15. (2) Reserve Bank salary structure levels appeared to lag behind national market salaries in grade 16. Additionally, Banks were not fully using salary ranges already available to them. (3) In the opinion of the Division of Personnel Administration, the Kansas City salary structure proposal for grades 12 through 16 was out of line with national market levels and structures of other Reserve Banks.

The Division of Personnel Administration recommended that: (1) No change be made in the 35 per cent spread on minimum and maximum ranges for grades 12 through 15. (2) Until the effect of the January 1964 change in salary schedule for Federal Government workers could be assessed, a "penthouse" be authorized as an addition to the current maximum of grade 16 at each Bank, and that this penthouse ceiling be set at $17,500 for New York and $16,500 for other Reserve Banks. Adoption of a penthouse scale would be at the discretion of the boards of directors of the respective Reserve Banks. However, once the penthouse was adopted by a Reserve Bank's directors and approved by the Board of Governors, a Bank could pay up to the penthouse ceiling without specific approval of the Board of Governors. (3) The

Kansas City-Denver structure for grades 12 through 16 be increased at a constant percentage rate over the present midpoint, the same percentage approved on October 9 for grade 11.

As the discussion opened, Governor Shepardson stated that when this question was first raised, it had seemed to him that there was a possibility of a real problem existing at the Reserve Banks with respect to salaries being paid professional employees, particularly in the fields of research and examination. He had suggested the possibility of having a super grade for those categories. However, analysis had shown that the Banks were not making use of their existing top grades to any significant extent. This problem seemed to be related to the fact that the Banks now classified their top professional jobs along with routine management-supervisory jobs.

Governor Shepardson went on to say that in discussion with Reserve Bank Presidents a view had been expressed that there was no need for a higher salary structure. As an economist progressed upward to the stage where the existing grade structure would be a factor, he was usually moved into the officer category. The Presidents seemed to think there was some advantage to such an employee having officer status since at various times he would represent the Bank in outside contacts. There was also the view that in many cases persons in this category were about as much concerned with the prerogatives of officer status as they were with salary. In addition, two Reserve Bank Presidents expressed the view

that the bulk of the work of the research staff was of a routine nature and that it was difficult to hold people as such jobs offered too little challenge. Normally, it was maintained, there were only a few top positions that offered a real challenge.

Governor Shepardson observed that there was a question as to how far the Board should go in urging the Banks to take another look at the way in which they classified their high-level non-officer jobs, particularly those of economists and bank examiners. The Board might want to urge, or require, a different approach with regard to classifications in these fields; this involved a basic question of philosophy.

Governor Shepardson then turned to the problem of the difficulty reportedly being encountered by some of the Reserve Banks in recruiting and retaining employees in the bank examination field. He believed that the bank examiner should be well qualified--he was a representative of the System and should be of such capacity that he could discuss problems that might arise in the line of his work with the top management of a member bank. The Reserve Banks should not be limited in hiring the best qualified persons by a low salary structure, but it seemed questionable whether this was the core of the problem.

Governor Shepardson said it seemed to him that at this time the Board could probably accomplish as much as could be done, barring a change of philosophy in the classification approach, by putting a "penthouse" on the grade 16 maximum that would provide a range above such figures on the

national market as could be derived through the use of information provided by the Reserve Banks plus information from professional societies and reference to the Government salary scale. The ceiling that was now proposed would give a leeway at the maximum of grade 16 up to about the midpoint of grade 15 in the Government scale that would become effective January 5, 1964. Assuming that the Government scale reflected a national market, it could be argued that the proposed Reserve Bank ceiling was not high enough, but it would go considerably above what was presently being used by the Banks. Governor Shepardson felt that this might be a satisfactory approach for the time being. There was uncertainty as to what new Governmental salary structure might be developed under pending legislation. If a new Government scale should be adopted, then further consideration could be given to the Reserve Bank problem. In the meantime, the Board could consider whether it wanted to urge the Reserve Banks to take another look at how they classified their top-level professional-type jobs and how they used their available salary structure.

Mr. Johnson then commented in some detail in supplementation of the information contained in the November 8 memorandum, following which there ensued a general discussion during which Governor Balderston expressed concern about the unevenness of the progression of grades 12 through 16 at some of the Reserve Banks. It seemed to him that the Board had a responsibility for maintaining a fairly consistent approach to salary-setting and that it should not condone sharply differing slope lines in the upper

grades. Here he was talking about the slope, not the absolute levels from one Bank to another. In reply, Governor Shepardson indicated that it was his thinking that deviations would be corrected as new salary structures were submitted in the future. He would not have in mind doing anything retroactively to correct existing deviations, and Governor Balderston agreed with this approach.

Governor Mitchell said that as he saw it the basic problem seemed to be concerned with grade 16, and particularly with economists and bank examiners. There appeared to be some differences of views as to the caliber of economists wanted and how to attract them to employment at the Reserve Banks. Some Banks seemed to be content to pay low salaries and recruit second-line talent, but other Banks, of which Kansas City was one, wanted to try to attract the best possible talent.

Governor Mitchell went on to express the view that a philosophy of giving the New York Reserve Bank a higher ceiling than other Reserve Banks, as was proposed, was inappropriate. To prospective employees in the economic field, the first choices of location would be the Board and the New York Bank, since the core of central bank activity was at these two points. Hence, it was more difficult to attract prospective employees to cities that might be considered less desirable places of employment.

When it came to examiners, Governor Mitchell saw a serious problem. He had the feeling that the examiners were not being given enough of a challenge to attract high-quality personnel and that many of the present

examiners were being paid well for the standard of performance of which they were capable. This presented something of a dilemma. In general, however, when a Reserve Bank President said that he wanted better quality people in his organization to do a more effective job than was now being done, he should be encouraged. It would be a long slow process; just paying a man more money did not mean that a Bank would necessarily obtain better performance. Altogether, the situation seemed unsatisfactory, as Governor Shepardson had said, and the best thing at the moment seemed to be to devise some sort of compromise. The present proposal appeared satisfactory, except that he would not favor a penthouse differential in favor of New York.

Governor Robertson stated that he felt there was a need for reconsideration of the classification practices being used at the Reserve Banks, as pointed out by Governor Shepardson. The System should be trying to attract high-quality persons, and insofar as obtaining quality persons was concerned, he believed the ceiling of grade 16 should be higher than was proposed. By having a higher ceiling, there was the possibility of an employee moving upward to reasonable compensation without being accorded officer status. He did not agree with the view that an individual always desired to be made an officer, feeling that many would prefer to continue in a professional status.

Governor Robertson went on to suggest that the proposed penthouse ceiling of $16,500 for grade 16 might be moved up to as high as $18,000,

with uniform application throughout the System, to provide incentive. The Board could then rely on the judgment of the directors of the respective Banks in using this higher salary level. Further, he believed it would be a mistake to set the penthouse ceiling at $17,500 for the New York Reserve Bank. This figure was not as high as some New York State bank examiners were now paid. In general, he would go along with the penthouse approach for the moment, but as a temporary measure pending such time as a strong program could be worked out for attracting and retaining top-quality personnel on a System basis.

There followed discussion of the advantages and disadvantages of having a higher penthouse ceiling than $16,500, as suggested by Governor Robertson. During this discussion, Governor Mills stated that he was favorably impressed with the recommendations submitted in the memorandum of November 8.

Governor Shepardson indicated that originally he had contemplated a uniform ceiling at all Banks, believing there were some persons who would prefer to stay in the grade categories and were not interested in shifting into the officer level. He was subsequently influenced by the almost uniform position of the Presidents of the Reserve Banks that if an employee reached a certain level and was outstanding, the Banks would want to give him officer status. If that was the case, the maximum of the classified structure was not the real ceiling. However, if there was a feeling on the part of economists to the contrary--in line with his

original concept--he would favor raising the ceiling of the employee salary structure. He would have no objection to going to $17,500 across the board; he had gone to the other approach because the Presidents maintained that it was the practice to shift top caliber men to the officer level.

Governor Mills said he agreed with the view that there was an attraction to most men to move into officer status. This apparently held true with economists, judging from the number who had moved into such status and then willingly undertaken administrative duties not related to their original training.

Chairman Martin then suggested that a penthouse ceiling of $17,500 for grade 16 be adopted for all Reserve Banks, and there was general agreement with this proposal.

The recommendations contained in the memorandum of November 8 from the Division of Personnel Administration were then approved, except with the understanding that the Board would approve for any Reserve Bank, if requested, an addition to its normal grade 16 maximum sufficient to provide a special maximum of $17,500 for that grade. A copy of the letter sent to all Federal Reserve Banks except Kansas City in this regard is attached as Item No. 6.

There is also attached, as Item No. 7, a copy of the letter sent to the Federal Reserve Bank of Kansas City informing that Bank that the Board would approve adjustments in grades 12 through 16 of the head office-Denver Branch salary structure, if requested by the directors of the Bank,

to provide a constant 11.1 per cent increase over present midpoints, along with the special maximum for grade 16.

Messrs. Johnson, Sprecher, and Hart then withdrew from the meeting.

Branch Vice President appointments. As a follow-up to the preceding discussion, Governor Shepardson raised the question whether it might be desirable, at the forthcoming meeting of the Conference of Chairmen of the Federal Reserve Banks, to discuss with the Chairmen the problem of making appropriate appointments as Vice Presidents in charge of Reserve Bank branches. After some discussion of this point, Governor Robertson suggested that it might be well first to take up the matter with the Conference of Presidents of the Reserve Banks, and Chairman Martin commented that he thought this would be a good idea.

Governor Balderston suggested the possibility of expressing appreciation to the Reserve Bank Chairmen for the work accomplished by the boards of directors in reviewing the auditing function at the respective Banks and also asking their advice on the problem of developing top-quality personnel in the examining function.

Investments Securities Regulation (Items 8, 9, and 10). At its meeting on October 14, 1963, the Board considered a draft of a proposed Board statement concerning the applicability of certain provisions of the Investments Securities Regulation of the Comptroller of the Currency to member State banks of the Federal Reserve System. (The revised Regulation

became effective September 12, 1963.) Since it had been issued under paragraph Seventh of section 5136 of the Revised Statutes, pursuant to section 9 of the Federal Reserve Act it was binding upon member State banks as well as national banks, except for any provisions of the Regulation that were beyond the Comptroller's power to adopt.

The proposed Board statement (which was attached to a Legal Division memorandum dated October 10, 1963, that had been distributed to the Board) would be distributed by the Federal Reserve Banks to all State member banks. It would inform them, with respect to the underwriting of securities, that in the Board's opinion the only securities exempted from the limitations and restrictions of paragraph Seventh were those specified by that statutory provision. Unless a particular issue of securities was so exempted, member State banks should not underwrite the issue, and the prohibition against investing more than 10 per cent of capital and surplus in securities of any one obligor was applicable. The proposed statement would also indicate that in the light of specified statutory and regulatory provisions it was believed that member State banks could not lawfully invest in convertible securities when the price substantially exceeded the investment value of the obligation, considered independently of the conversion feature.

At the conclusion of the discussion on October 14, it had been agreed to defer for further consideration the issuance of the proposed statement.

Following discussion at today's meeting, the issuance of the proposed statement was approved unanimously subject to certain changes of an editorial

nature. Copies of the transmittal letter to the Reserve Banks, the Board statement in the form sent, and the press release issued in this connection are attached as Items 8, 9, and 10, respectively. It was understood that the statement would be published in the Federal Register and that the revised Investment Securities Regulation of the Comptroller of the Currency would be published in the November 1963 issue of the Federal Reserve Bulletin along with the Board statement on its applicability to member State banks.

Comptroller's manuals. Mr. O'Connell reported that he had received a telephone call yesterday from the Office of the Comptroller of the Currency inquiring with regard to the Comptroller's understanding that copies of the Comptroller's Manual for National Banks and Manual for Representatives in Trusts had been reprinted by the Board.

Following discussion, during which it was noted that copies of the two manuals were reproduced pursuant to the decision made at the Board meeting on September 9, 1963, it was understood that Mr. O'Connell would verify to the Comptroller's Office that copies had been reproduced for use at the Board and the Reserve Banks.

Messrs. O'Connell, Hooff, and Leavitt then withdrew from the meeting.

Meeting of economic consultants to the Treasury. Governor Mitchell reported informally on a recent meeting of economic consultants to the Treasury Department that he had attended.

Seminar with academic economists. Governor Mitchell reported on discussions that he, Mr. Young, and Mr. Noyes had had with Professor

G. L. Bach concerning a proposed meeting of the Board with a group of academic economists, for whom Professor Bach would act as chairman and organizer. Progress had been made, Governor Mitchell said, in setting up plans for such a meeting, which it was contemplated might be held around the end of January 1964. He also described the format of a meeting such as Professor Bach would have in mind and the names of economists whom Professor Bach might ask to participate in the first meeting or subsequent meetings of this kind. It was understood that provision for the expense involved in this project would be made in the budget of the Division of Research and Statistics.

The meeting then adjourned.

Secretary's Notes: A letter was sent today to International Banking Corporation, New York, New York, acknowledging receipt of advice that The Bank of Monrovia, Monrovia, Liberia, intended to establish an office in the Ducor Intercontinental Hotel in Monrovia.

Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson approved on behalf of the Board on November 12, 1963, the following actions relating to the Board's staff:

Appointments

Professor Karl A. Fox, Iowa State University, Professor Irwin Friend, University of Pennsylvania, and Professor Daniel B. Suits, University of Michigan, as Consultants in the Division of Research and Statistics, effective to December 31, 1963, on a temporary contractual basis, with compensation for each at the rate of $75 per day for each day worked for the Board and, when in travel status, transportation expenses and a per diem in accordance with the Board's travel regulations.

Appointments (continued)

Richard W. Lindholm, Dean, School of Business Administration, University of Oregon, to the Government Finance Section staff, with basic annual salary at the rate of $15,665, according to the Salary Schedule that would become effective January 5, 1964, (or the minimum salary rate of Grade FR-15 at the time of his reporting for duty, whichever may be higher), effective the date of entrance upon duty (about August 1, 1964) and terminating about July 31, 1965. It was understood that Mr. Lindholm proposed to spend April and May 1965 in Europe on a leave-without-pay basis, except possibly for some days on annual leave, and that the Board would not be expected, for purposes of such travel, to pay transportation expenses or any per diem in lieu of subsistence.

Outside activity

Aaron Dortch, Operator (Xerox-Mimeograph), Division of Administrative Services, to work part time as a parking attendant.

Acceptance of resignation

Fred L. Robinson, Messenger, Division of Administrative Services, effective at the close of business November 11, 1963.

Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

Item No. 1
11/13/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 13, 1963

Board of Directors,
The Peoples Banking Company,
McComb, Ohio.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to May 15, 1964, the time within which The Peoples Banking Company, McComb, Ohio, may withdraw from membership in the Federal Reserve System.

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
11/13/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 13, 1963

Mr. Geo. D. Royer, Jr.,
Chief Examiner,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri. 64106

Dear Mr. Royer:

This refers to your letter of October 23, 1963, requesting the Board's opinion with respect to two questions, dealing with the withdrawal of deposits, presented by a member bank which proposes to absorb another bank by merger. The problem occurs by reason of the fact that the two banks have a number of common depositors who will have accounts in the resulting bank exceeding $10,000, the amount covered by deposit insurance.

The first question is whether the bank resulting from the merger could permit the depositor to withdraw funds in excess of $10,000, with interest to date, regardless of the unexpired terms of time certificates representing such deposits. It is questionable whether the circumstances described would constitute an "emergency" under section 217.4(d) of Regulation Q where payment before maturity would be necessary to prevent "great hardship" to the depositor. However, in view of the equities of the situation, the Board would not object to a liberal interpretation of this provision of the Regulation. Attention is called to the fact that in connection with such a withdrawal the depositor must forfeit up to three months of accrued and unpaid interest. Thus, in the case presented, the depositor would have the choice of allowing funds in excess of $10,000 to remain on deposit without the benefit of insurance, or withdrawing the funds at a sacrifice of some interest.

As to the second question, if the two accounts are in the form of savings deposits, and if the bank permits the withdrawal of savings deposits without requiring advance written notice, the customer could withdraw any part of his savings deposit at any time and the bank, if it wishes, could pay accrued interest up to the time of the withdrawal.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

Item No. 3
11/13/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 13, 1963

CONFIDENTIAL (FR)

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

Dear Mr. Ellis:

The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of Boston for the period January 1 through December 31, 1964, at the rates indicated:

Name	Title	Annual Salary
John J. Barrett	Assistant Cashier	$11,500
Harry R. Mitiguy	Bank Relations Officer	$13,000

The salary rates approved are those fixed by your Board of Directors, as reported in your letter of October 16, 1963.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 4
11/13/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 13, 1963.

Dear Sir:

Pursuant to section 214.5(a) of Regulation N, the Board has consented to the opening and maintenance by the Federal Reserve Bank of New York of an account payable in foreign currency with the Bank of Japan.

As a result of this action and previous actions of the Board, the Federal Reserve Bank of New York is now authorized to maintain accounts payable in foreign currency with the foreign banks designated below:

Austrian National Bank
Bank for International Settlements
Bank of Canada
Bank of England
Bank of France
Bank of Italy
Bank of Japan
Bank of Sweden
German Federal Bank
National Bank of Belgium
Netherlands Bank
Societe Nationale de Credit a l'Industrie
Swiss National Bank

All such accounts are subject to the provisions of section 5 of Regulation N, as amended effective February 13, 1962.

This letter supersedes the Board's letter of January 11, 1963.

Very truly yours,

Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

Item No. 5
11/13/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 14, 1963

CONFIDENTIAL (FR)

Mr. Edward A. Wayne, President,
Federal Reserve Bank of Richmond,
Richmond, Virginia 23213.

Dear Mr. Wayne:

As requested in your letter of September 27, the Board of Governors approves the following minimum and maximum salaries for the respective grades of the Richmond-Charlotte Branch structure, effective December 27, 1963, and the Baltimore Branch structure, effective December 23, 1963.

Grade	Richmond-Charlotte		Baltimore	
	Minimum	Maximum	Minimum	Maximum
1				
2	$2,600	$3,484	$2,600	$3,458
3	2,717	3,666	2,860	3,861
4	2,964	4,004	3,107	4,199
5	3,224	4,342	3,406	4,602
6	3,588	4,849	3,809	5,148
7	3,991	5,395	4,199	5,668
8	4,420	5,980	4,602	6,214
9	4,862	6,565	5,057	6,825
10	5,356	7,228	5,603	7,566
11	5,824	7,852	6,084	8,216
12	6,578	8,866	6,721	9,074
13	7,293	9,841	7,371	9,958
14	8,008	10,816	8,008	10,816
15	8,788	11,856	8,788	11,856
16	9,646	13,026	9,646	13,026
	10,543	14,235	10,543	14,235

The Board approves the payment of salaries within the limit specified for the grades in which the position of employees are classified. All employees whose salaries are below the minimum of their grades as a result of these structure increases should be brought within appropriate ranges by April 1, 1964.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 6
11/13/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 18, 1963.

Dear Sir:

The Board is aware of the difficulties experienced by the Reserve Banks in recruiting and retaining employees of the desired quality in professional level positions, particularly since prospects for such positions must be recruited in a market that is essentially national rather than regional. Therefore, to improve your Bank's ability to get and hold such employees, the Board is prepared to approve for any Reserve Bank an addition to its normal Grade 16 maximum sufficient to provide a special maximum of $17,500 for that grade. It is believed that this "penthouse" addition will provide adequate flexibility without affecting the normal structure. Should your Board of Directors wish to use the special maximum, the Board of Governors will give prompt consideration to a request for its approval.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS EXCEPT KANSAS CITY

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

Item No. 7
11/13/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 18, 1963

CONFIDENTIAL (FR)

Mr. George H. Clay, President,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri. 64106

Dear Mr. Clay:

After careful consideration of your request for revised minimum and maximum ranges for Grades 12 through 16 of the non-official salary structure applicable to the Head Office and Denver Branch, the Board of Governors is prepared to approve adjustments in these grades on the basis of a constant 11.1 per cent increase over present midpoints, if so requested by your Directors. This is the same percentage increase already approved for Grade 11, and will provide your Bank with a normal Grade 16 maximum of about $15,600.

The Board is aware of the difficulties experienced by the Reserve Banks in recruiting and retaining employees of the desired quality in professional level positions, particularly since prospects for such positions must be recruited in a market that is essentially national rather than regional. Therefore, to improve your Bank's ability to get and hold such employees, the Board is prepared to approve for any Reserve Bank an addition to its normal Grade 16 maximum sufficient to provide a special maximum of $17,500 for that grade. It is believed that this "penthouse" addition will provide adequate flexibility without affecting the normal structure. Recommendation of the special maximum, of course, is optional with your Board of Directors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 3911
11/13/63

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

S-1900

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 15, 1963.

Dear Sir:

In connection with publication in the November issue of the Federal Reserve Bulletin of the Investment Securities Regulation, as revised recently by the Comptroller of the Currency, the Board of Governors has issued a Statement dated November 14, 1963, relating to that Regulation and its applicability to member State banks.

It will be appreciated if your Bank will arrange to have copies of the Statement sent to every member State bank in your District, and copies that may be used for this purpose are enclosed. The Statement will be published in both the Bulletin and the Federal Register.

For your information there are also enclosed two copies of a press statement that will be released on Monday, November 18.

Very truly yours,

Merritt Sherman,
Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Item No. 9
11/13/63

APPLICATION OF INVESTMENT SECURITIES REGULATION TO MEMBER STATE BANKS

A revision of the Investment Securities Regulation (Code of Federal Regulations, Title 12, Part 1) was issued recently by the Comptroller of the Currency. Under section 9 of the Federal Reserve Act (12 U.S.C. 335) the Regulation is applicable to member State banks as well as to national banks, insofar as it conforms to to paragraph Seventh of section 5136 of the Revised Statutes (R. S. 5136; U. S. Code, Title 12, section 24).

Provisions of Regulation with respect to "exempt securities". Paragraph Seventh refers to two areas of securities transactions by a bank: (1) underwriting and dealing, which are grouped as "underwriting" herein, and (2) investing (called "purchasing for its own account" in the statute).

The statute contains a general prohibition against a member bank (1) underwriting securities or (2) investing more than 10 per cent of its capital and surplus in the securities of any one obligor. In addition to this 10 per cent limitation, the power of national banks and member State banks to purchase securities for investment is subject to "such limitations and restrictions as the Comptroller of the Currency may by regulation prescribe". The term "investment securities" is defined in paragraph Seventh and is subject to "such further definition...as may by regulation be prescribed by the Comptroller".

The statute also provides, however, that "The limitations and restrictions herein contained as to dealing in, underwriting and purchasing for [the bank's] own account, investment securities shall not apply to obligations of the United States, or general obligations of any State or of any political subdivision thereof", or certain other securities. In other words, national banks and member State banks are legally free (1) to underwrite such "exempt securities" and (2) to invest therein without regard to the 10 per cent limitation mentioned above.

The authority of the Comptroller of the Currency to issue investment regulations pursuant to R. S. 5136 does not include authority to exempt additional kinds of securities from the prohibition against underwriting or the prohibition against investing more than 10 per cent of capital and surplus in securities of any one obligor. Despite this, § 1.3 of the Comptroller's recent revision of the Investment Securities Regulation contains a definition of "public security" and § 1.4 states that "A bank may deal in, underwrite, purchase and sell for its own account a public security subject only to the exercise of prudent banking judgment." The term "public security" is so defined that, in effect,

the Regulation purports to authorize national banks and member State banks to underwrite, and to purchase without limitation on amount, securities that are not exempted by law from the statutory prohibition against underwriting and against investing in excess of the 10 per cent limitation. For example, the terms of the Regulation would authorize such banks to underwrite some securities of public corporations that are payable solely out of revenues derived from the operation of a tunnel, turnpike, bridge, or the like, despite the fact that the applicable statute does not exempt such securities from the general prohibition against underwriting by banks.

Since the Comptroller is not authorized by law to expand the category of exempt securities established and described in paragraph Seventh of R. S. 5136, the current Regulation does not have the force and effect of law insofar as it attempts to do this. Accordingly, member State banks are informed that, in the opinion of the Board of Governors, the only securities that are exempt from the limitations and restrictions of paragraph Seventh are those specified in section 5136. Unless a particular issue of securities is exempt by virtue of that provision of law, member State banks may not underwrite the issue, and the 10 per cent limit is applicable to investments therein. Since so-called "revenue obligations" of the kinds mentioned above, as well as other revenue obligations, are not exempt from the limitations and restrictions of R. S. 5136, it would be unlawful for a member State bank to underwrite such securities or to invest in them in excess of the 10 per cent limit.

Convertible securities. From time to time corporations issue debentures or similar securities that constitute an obligation to pay a specified dollar amount of principal (as well as interest) and in addition give the holder an option to convert the security into a specified number of shares of the corporation's stock. When the market value of the stock into which such a debenture is convertible is substantially less than the face value of the debenture, the debenture ordinarily will sell at a price that reflects principally its value as a corporate obligation, without regard to the conversion option. However, the market value of the stock sometimes increases to such an extent that the shares into which a debenture is convertible have a market value that is much greater than the face value of the debenture. For example, a number of convertible debentures traded on the New York Stock Exchange sell at prices of $2,000, $3,000, or more, for securities with a face value of $1,000. These prices approximate very closely the current market value of the shares of stock for which the convertible may be exchanged at the holder's option.

A question has arisen as to the circumstances in which a member State bank may purchase convertible debentures for its investment portfolio under the provisions of the Investment Securities Regulation of the Comptroller of the Currency, as recently revised.

Section 1.3(b) of that Regulation defines "investment security" to exclude securities "which are predominantly speculative in nature", so that, under R. S. 5136 and the Regulation, the purchase of "predominantly speculative" securities is not permissible. When the market price of a convertible debenture is far in excess of its face value because of the conversion feature, and its price fluctuations parallel the fluctuations in the price of the stock into which it is convertible, the debenture is necessarily speculative. Market conditions may induce price fluctuations that may have no relationship to the quality of the debenture or even of the particular stock into which it can be converted.

Accordingly, it would appear that a bank is prohibited from purchasing convertible debentures in the circumstances described. However, uncertainty as to this matter could arise from the terms of § 1.10 of the Comptroller's Revised Regulation, which might be read as indicating that a bank may purchase convertible securities generally, provided that the cost of such a security is written down promptly "to an amount which represents the investment value of the security considered independently of the conversion feature".

Quite apart from questions of interpretation of the revised Regulation, however, it is to be noted that the law itself (paragraph Seventh of R. S. 5136) in effect forbids national banks and member State banks to purchase "any shares of stock of any corporation". When the market price of a convertible security reaches 200 per cent or 300 per cent of its face value due to a rise in the price of the related stock, purchase of the convertible security is, for practical purposes, equivalent to the purchase of the stock it represents.

In the light of these statutory and regulatory provisions, it is the position of the Board of Governors that a member State bank may not lawfully invest in a convertible security whose price exceeds, by more than an insignificant amount, the investment value of the obligation, considered independently of the conversion feature. Adherence to this principle will avoid violations of the statute and Regulation that would occur if a bank were to purchase convertible securities in such circumstances that the security necessarily would be "predominantly speculative in nature", for the reasons described, and the transaction would be tantamount to a purchase of corporate stock.

November 14, 1963.

Item No. 10
11/13/63

For immediate release November 18, 1963.

The Board of Governors has issued a statement regarding the recently revised Investment Securities Regulation of the Comptroller of the Currency, as it relates to State banks that are members of the Federal Reserve System. The Board held that the new Regulation does not enlarge the power of member State banks to underwrite or deal in securities. The Board also ruled that such banks may not invest in convertible debentures, or other securities that are convertible into stock, if such securities are selling at prices in excess of their value as corporate obligations.

A copy of the statement is attached.

Attachment