Minutes for December 2, 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 _____

Gov. Mills _____

Gov. Robertson _____

Gov. Balderston CCB

Gov. Shepardson _____

Gov. Mitchell _____

Gov. Daane _____

Minutes of the Board of Governors of the Federal Reserve System on Monday, December 2, 1963. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Mills 1/
Mr. Robertson
Mr. Shepardson
Mr. Mitchell

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Young, Adviser to the Board and Director, Division of International Finance
Mr. Spencer, General Assistant, Office of the Secretary
Mr. Morgan, Staff Assistant, Board Members' Offices

Messrs. Noyes, Koch, Brill, Garfield, Holland, Williams, Dembitz, Altmann, Bernard, Eckert, Freedman, Keir, Osborne, Partee, Trueblood, Wernick, and Yager of the Division of Research and Statistics

Messrs. Furth, Hersey, Sammons, Katz, Gekker, Gemmill, Goldstein, Irvine, Maroni, and Swerling of the Division of International Finance

Messrs. Jasper Rootham, Chief, Central Banking Information Department, Bank of England, and John A. Kirbyshire, Alternate Executive Director for the United Kingdom, International Monetary Fund

Economic review. The Division of International Finance reported on international financial conditions, after which the Division of Research and Statistics presented information relating to the domestic economy, which included a review of money market developments.

1/ Withdrew from meeting at point indicated in minutes.

Following discussion based on those reviews, Messrs. Rootham and Kirbyshire withdrew, as did all members of the staff except Messrs. Sherman, Kenyon, Young, Noyes, Spencer, and Morgan, and the following entered the room:

Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel Administration
Mr. Shay, Assistant General Counsel
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Smith, Assistant Director, Division of Examinations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Bakke, Senior Attorney, Legal Division

Ratification of actions. Actions taken by the available members of the Board at the meeting held on November 29, 1963, as recorded in the minutes of that meeting, were ratified by unanimous vote.

Discount rates. The establishment without change by the Federal Reserve Bank of Dallas on November 29, 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 First National City Bank, New York, New York, granting permission to establish a branch in Athens, Greece.	1

	Item No.
Letter to Peninsula Bank and Trust Company, Williamsburg, Virginia, approving an investment in bank premises.	2
Letter to First State Bank, Buffalo, South Dakota, interposing no objection to an investment in bank premises.	3
Letter to Golden Gate National Bank, San Francisco, California, granting its request for permission to maintain reduced reserves.	4
Letter to National Bank and Trust Co. of Ann Arbor, Ann Arbor, Michigan, regarding service by an individual as a director of the bank and also as a director of an open-end investment company.	5
Letter to the Treasury Department listing names of attorneys in the Federal Reserve System who would be qualified to testify before Canadian courts in counterfeiting cases involving United States currency. (With letters of advice to the affected Federal Reserve Banks.)	6
Letter to Chairman Long of the Subcommittee on Administrative Practice and Procedure of the Senate Committee on the Judiciary transmitting statistical data on administrative proceedings for 1963.	7
Memorandum dated November 15, 1963, from Mr. Noyes, Director, Division of Research and Statistics, regarding a proposed contract with the University of Wisconsin for an exploratory investigation of methods of organizing financial data for research purposes.	8
Letter to the Presidents of all Federal Reserve Banks transmitting a letter from the Secretary of the Treasury dated November 20, 1963, regarding the need for currency in denominations larger than $100.	9

With respect to Item No. 6, it was decided to expand the letter to include names of attorneys from the Federal Reserve Banks of New York, Cleveland, and San Francisco.

Messrs. Young, Noyes, Shay, Goodman, Leavitt, Spencer, Bakke, and Morgan then withdrew from the meeting.

Examination of Boston Reserve Bank. There had been circulated to the Board the report of examination of the Federal Reserve Bank of Boston made by the Board's examining staff as of August 12, 1963. The usual accompanying memoranda also had been circulated, and a summary memorandum from the Division of Examinations dated November 14, 1963, had been distributed.

The report of examination commented, among other things, on an unsatisfactory performance record in the Check Collection Department marked by developments such as substantial holdover of items not fully processed and a high incidence of errors in outgoing cash letters. These conditions were attributed mainly to the steady increase in volume of checks and malfunctioning of the high-speed check-handling equipment. However, there were indications that faulty organization of the work and some deterioration in performance quality were probably also factors. The management of the Reserve Bank was engaged actively, at the date of examination, in seeking ways and means of improving the check-handling procedures. A committee of officers had nearly completed a study, including surveys of systems in effect at other Reserve Banks, and it had been indicated that one result of the study would be a

recommendation for the replacement of high-speed equipment currently leased from National Cash Register Company by a high-speed complex manufactured by Burroughs Corporation. On the basis of an audit of the Check Collection Department conducted by the Reserve Bank's General Auditor as of October 4, 1963, it appeared that there had been a substantial improvement in the number of holdovers, along with a complete clean-up of checks at the end of each week. There had also been a noticeable reduction in the incidence of errors, and unadjusted errors at audit date were substantially lower than at the date of the Board's examination. Further improvement was anticipated with the replacement of the existing high-speed equipment.

At the Board's request, Mr. Smith commented on the results of the examination, with particular emphasis on the difficulties found in the check collection function.

In the ensuing discussion, Governor Mills said that in reading the examination report he sensed an element of human deficiencies that might have had as much to do with the difficulties in the check collection function as mechanical deficiencies. The fact that the check collection problems were not tackled sooner implied a criticism of management. Turning to another part of the report of examination, he asked whether a debit balance in suspense account described as "differential on Canadian currency" meant that the Reserve Bank was absorbing the discount on Canadian coin deposited with it and, if so, for what reason.

He also noted that there was listed in suspense account an item reflecting salaries paid in advance that were not refunded by employees who had left the employ of the Bank.

Mr. Farrell commented that the reported difficulties in the Check Collection Department had come as something of a surprise to the Division of Bank Operations. The National Cash Register high-speed equipment had been regarded as promising and appeared to have performed well heretofore at Boston, which earlier this year had been considering the leasing of additional equipment from that manufacturer. Representatives of the Division had been at the Boston Bank in March, at which time the check collection operation apparently was satisfactory and no significant difficulties were reported by the Bank. System statistics prepared in the first half of this year had indicated that holdover at Boston compared favorably with the volume at other Reserve Banks and branches in relation to the volume of check collection operations.

Upon inquiry by Chairman Martin as to what steps he would recommend, Mr. Farrell said he felt the Board should obtain the answer to the question of what had happened, according to the report of examination, to what seemed to have been one of the better check collection operations in the System. Quite obviously, whatever had occurred had happened between March and August.

Governors Robertson and Mills expressed the view that a follow-up study should be made immediately. The latter also referred to the information presented in the report of examination with respect to

V-loans, noting that the Reserve Bank was maintaining records on four outstanding loans as to which the guaranteed portions had been purchased by the Bank, as fiscal agent, acting on the instruction of and for the account of the respective guarantors. The loan balance outstanding was substantial in three of these cases, and the prospect of substantial recovery seemed questionable. He raised the question whether this situation reflected adversely on credit judgments rendered by the Reserve Bank when the V-loans were originally extended.

Mr. Smith commented, with respect to the V-loans, that he doubted whether it would be fair to attribute blame to the management of the Reserve Bank. Many times in such cases it is known that an application does not have too much credit-worthiness, but the defense authorities want the activity conducted. While the Reserve Banks make credit investigations and reports, he felt that it would be severe to attach blame to a Reserve Bank management for what happened to some of these credits.

As to salaries not reimbursed by employees who had left the Reserve Bank, Mr. Farrell explained that Massachusetts law requires employers to be within a week of current status in salary payments. The Boston Reserve Bank had followed the practice of paying on a bi-weekly basis, with the payment covering one week served and one week remaining to be served. With no retirement deductions made by Reserve Banks for employees with salaries under $4,200 per annum, the Boston Bank did not have recourse to retirement contributions in obtaining salary refunds.

There followed reference to the physical condition of certain Reserve Bank officers, after which discussion reverted to the difficulties in the Check Collection Department and Governor Mitchell said he would feel more comfortable if a visit were made to the Reserve Bank by the Board's staff for an up-to-date reappraisal of the situation. Governor Robertson agreed, saying that if members of the Board's staff visited the Reserve Bank and went into the situation thoroughly, the Board would then be in a better position to decide what, if any, further steps were necessary. Governor Mitchell commented that it would be helpful for the Board to have a basis for reaching a judgment on the adequacy of moves on the part of management to deal with the situation. If they appeared adequate, perhaps little further needed to be done unless the other matters mentioned by Governor Mills at this meeting warranted investigation.

Governor Shepardson then suggested that Messrs. Farrell and Kiley visit the Boston Bank, make a thorough study, and report to the Board, and there was general agreement with this suggestion. The view was expressed that President Ellis should be told in advance that such a visit was planned, and it was understood, at the suggestion of Chairman Martin, that Governor Mills would talk with President Ellis about the matter.

Mr. Johnson then withdrew from the meeting.

Reserve deficiencies. At the meeting on Friday, November 29, there had been a preliminary discussion of the possibility that in

forthcoming weeks one or more Reserve Banks would incur deficiencies in their reserves against note or deposit liabilities. During that discussion, reference had been made to a memorandum addressed to the Federal Open Market Committee and Reserve Bank Presidents under date of November 27, 1963, by Mr. Stone, Manager of the System Open Market Account, and Mr. Farrell, Director of the Board's Division of Bank Operations. In that memorandum, attention was called to the possibility of deficiencies occurring on days other than weekly statement dates under current procedures authorized by the Open Market Committee for allocation of the System Open Market Account.

The discussion continued at this meeting with Chairman Martin making opening comments in which he noted the complexities of the problem. The establishment of procedures for allocation of the Open Market Account had traditionally been handled by the Open Market Committee, but the Board also had responsibilities in the area of reserve deficiencies. There was a policy question as to whether it would be better simply to allow a Reserve Bank or Banks occasionally to incur a daily deficiency and pay the required tax, or whether everything possible should be done to avoid the incurrence of any such deficiencies for as long a period as possible. There were possible psychological advantages, and possible disadvantages, in either direction.

Governor Mills pointed out that the statute clearly states that upon the incurrence of a reserve deficiency the Board shall assess a tax against the Reserve Bank having the deficiency. While the tax

might be nominal, this procedure would represent adherence to the law whereas, as he saw it, artificial adjustments to avoid such deficiencies would fail to reflect a true picture of the movement of reserves in the respective districts.

Mr. Hackley commented that at times in the past all Reserve Banks (except possibly Philadelphia) had had reserve deficiencies on which a tax had been paid as required by statute. What appeared to be in the offing was the possibility that some Reserve Bank or Banks would incur a deficiency on a day between weekly statement dates. A tax would have to be paid, and the Board had already established the schedule. The incurrence of such a deficiency would not necessarily be made public immediately, however, as would be the case if a deficiency occurred on a statement date.

Governor Robertson noted that he understood that a member of the Board's staff had made a suggestion recently that seemed worthy of consideration. This suggestion would involve reallocations through direct adjustments of securities in the Open Market Account rather than by transferring gold certificates through the Interdistrict Settlement Fund.

Mr. Farrell reviewed the elements of this suggestion and the underlying rationale, after which Governor Mills inquired whether the plan had been reviewed by the Legal Division. He indicated that he would like to withhold judgment on such a procedure pending further

study as to whether it would raise any questions from the standpoint of adherence to the statute.

In further discussion, Chairman Martin observed that the simplest procedure would be for Reserve Banks to pay the applicable tax if any daily deficiencies occurred, and Governor Mitchell indicated that he was inclined toward this alternative. Too much juggling of accounts on a daily basis to avoid the incurrence of deficiencies might make the System vulnerable to criticism, in his opinion, if the matter should be subjected to close examination.

Governor Robertson observed that the problem seemed likely to grow more acute as the gold certificate reserves of the twelve Reserve Banks drifted lower in relation to note and deposit liabilities, and Governor Mills commented that a purist would say that at such a point taxes should properly be imposed on the deficient Reserve Banks, in order to require correction of the deficiency. Governor Robertson noted, however, that if procedures had never been established for adjusting security holdings in reflection of differences between Reserve districts, the situation would already have become critical. The procedures for allocating the Open Market Account had had built into them the idea of making adjustments to avoid deficiencies.

Governor Mitchell noted that, as Governor Mills had said, the statute was aimed at penalizing Reserve Banks for deficiencies. While the interrelated nature of the economy was a factor that must be taken into account, it did seem to him that complicated bookkeeping procedures

were wasteful of time and effort and that it would be easier simply for a Reserve Bank to pay a tax on any deficiencies and then have a periodic reallocation, perhaps semiannually or once a year. If there should be an increasing number of deficiencies, that would be a signal that the System must go to the Congress and request relief from the 25 per cent gold reserve requirement.

Governor Balderston suggested that the unit the Board really was talking about was the Federal Reserve System. If the gold supply reached a point where the System as a whole did not have the required 25 per cent cover against note and deposit liabilities, the System must then resort to the escape hatches. Until that point was reached, however, he questioned whether a reasonable explanation could be made if half of the Reserve Banks were paying taxes on reserve deficiencies while the other half had surplus reserves available.

The question of the position of individual Reserve Banks versus the System as a whole was then discussed further in light of the applicable statutory requirements and other considerations, following which Mr. Farrell commented that the distributed memorandum was designed to call attention to the possibilities in the forthcoming weeks and, in effect, ask for instructions, it having been indicated a year or so ago that the staff should study what might be done if the System's gold certificate reserves were to shrink further in relation to note and deposit liabilities. The memorandum had noted the possibility of making certain adjustments to avoid intra-weekly reserve deficiencies if it should be desired that such a procedure be followed.

Governor Balderston pointed out that any allocation of the Open Market Account had to be done on some arbitrary basis. As long as there had to be some allocation procedure, he wondered whether there was not a case for continuing the process to the point of making all feasible adjustments to avoid the incurrence of deficiencies.

Governor Mills raised a question with respect to the division of responsibilities between the Board and the Open Market Committee, and the Chairman turned to Mr. Hackley for comments on that point. Mr. Hackley brought out that the Board was required by statute to establish a graduated tax that must be paid by any Federal Reserve Bank that incurred a deficiency in its reserves against either note or deposit liabilities. As to notes, the law contained certain limitations on the calculation of the tax that the Board must observe. The Board had already established a tax schedule, and if a Bank incurred a deficiency it must pay accordingly. However, the law also contemplated that if any Reserve Bank expected to have continued deficiencies, the Board would suspend the reserve requirements for that Bank. The Legal Division had reached the conclusion that where the situation was confined to unanticipated and infrequent daily deficiencies, no suspension of reserve requirements was necessary; but if it appeared that the deficiencies were going to continue for an extended period, the Board would be called upon to suspend the requirements. It had done this three times in the past, twice for all Federal Reserve Banks. Only one of these suspensions apparently had been made public.

Mr. Hackley went on to say that establishment of the formula for allocation of the Open Market Account portfolio among the Federal Reserve Banks was a separate matter. To the extent that the Account could be allocated so as to avoid deficiencies in gold reserves, that would not be inconsistent with the law assuming that a Bank maintained the required reserve against Federal Reserve notes, whether in the form of gold certificates, Government securities, or eligible paper.

After further discussion of the current allocation procedures and how they might be amended if an additional effort to avoid intra-weekly reserve deficiencies was desired, Chairman Martin commented that it would appear necessary for the Board to continue to study and discuss this subject; possibly some fundamental decisions were drawing close.

All of the members of the staff then withdrew from the meeting and the Board went into executive session.

Following the meeting, Governor Shepardson informed the Secretary that during the executive session the Board took the following actions:

Staff salaries. After discussion of the problem of compaction in official staff salaries in the Board's organization and the competitive problem of hiring and/or retaining top flight officials, the Board established a new maximum rate of $27,500 per annum for official salaries and authorized Governor Shepardson to submit recommendations for official staff salary adjustments for the coming year within that limit. Messrs. Martin, Balderston, Shepardson, and Mitchell voted in favor of this

action, and Messrs. Mills and Robertson voted against it. In voting against the action, Governor Mills indicated that he would have concurred in an action to adopt a new maximum for official salaries at the same maximum rate as that proposed in pending legislation for classified Federal Government employees. With respect to his vote against the action, Governor Robertson stated that, while he favored a higher salary level, he did not believe it appropriate for the Board to fix higher salary limits for members of its staff in advance of action by the Congress to increase maximum rates for officials in the classified service.

Governor Mills withdrew from the meeting at this point.

Secretary's Note: Governor Daane, who was unable to attend this meeting, subsequently informed the Secretary that, had he been present, he would have voted to approve the foregoing action taken by the Board.

Appointments. On recommendation of Governor Shepardson, the Board approved the following promotions, effective January 1, 1964:

Guy E. Noyes, Director of the Division of Research and Statistics, to Adviser to the Board.

Daniel H. Brill, Adviser, Division of Research and Statistics, to Director of that Division.

Robert C. Holland, Adviser, Division of Research and Statistics, to Associate Director of that Division.

J. Charles Partee, Chief, Capital Markets Section, Division of Research and Statistics, to Adviser in that Division.

In connection with Mr. Holland's promotion, the Board authorized Governor Shepardson also to discuss with him the Board's expectations as to future assignments that might be given to him.

The meeting then adjourned.

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

Letter to the Federal Reserve Bank of Richmond (attached Item No. 10) approving the designation of five employees as special assistant examiners.

Memorandum from the Division of Research and Statistics dated November 27, 1963, recommending the appointment of Ronald Sterkel, Associate Professor of Fine Arts, University of Illinois, as Consultant in that Division effective to November 30, 1964, on a temporary contractual basis with compensation at the rate of $50 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.

Memorandum from the Division of Personnel Administration dated November 29, 1963, recommending that all employees, other than members of the Board's officer staff, who were certified as having been requested to work on Monday, November 25, 1963, the day on which the Board was closed pursuant to Executive Order 11128, be awarded compensatory leave for the time worked on that day.

Memoranda from appropriate individuals concerned recommending the following actions relating to the Board's staff:

Change in employment status

Appointment on a permanent basis of Park O. Showalter, Electrician-Operating Engineer, Division of Administrative Services, with no change in basic annual salary at the rate of $6,386, effective December 17, 1963.

Salary increases, effective December 8, 1963

Edna L. Stoll, Senior Records Clerk, Office of the Secretary, from $5,045 to $5,205 per annum.

Att W. Hammons, Jr., Assistant Federal Reserve Examiner, Division of Examinations, from $8,310 to $8,575 per annum.

JoAnn Cannada, Clerk-Stenographer, Division of Administrative Services, from $4,110 to $4,250 per annum.

Secretary

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

Item No. 1
12/2/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 2, 1963.

First National City Bank,
399 Park Avenue,
New York 22, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System grants its permission to First National City Bank, New York, New York, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish a branch in Athens, Greece, and to operate and maintain such branch subject to the provisions of such Section and of Regulation M.

Unless the branch is actually established and opened for business on or before December 1, 1964, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted will automatically terminate on that date.

Please inform the Board of Governors, through the Federal Reserve Bank of New York, when the branch is opened for business, furnishing information as to the exact location of the branch. The Board should also be promptly informed of any future change in location of the branch within the City of Athens.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
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.)

Item No. 2
12/2/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 2, 1963

Board of Directors,
Peninsula Bank and Trust Company,
Williamsburg, Virginia.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment of $25,000 in bank premises by Peninsula Bank and Trust Company, Williamsburg, Virginia, for the purpose of constructing an addition to its branch building at 120 Monticello Avenue, Williamsburg, Virginia.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 3
12/2/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 2, 1963

Board of Directors,
First State Bank,
Buffalo, South Dakota.

Gentlemen:

The Board of Governors of the Federal Reserve System has received the request of your bank for approval of a recent expenditure for bank premises. Section 24A of the Federal Reserve Act requires a State member bank to obtain the approval of the Board of Governors for an investment in bank premises which, when added to the carrying value of present investments in such premises, will aggregate an amount in excess of the bank's capital stock. Since the expenditure in this case has already been made the prior approval contemplated by the statute cannot be given.

However, if a timely request had been made for the required approval, it appears, on the basis of information before the Board, that such approval would have been granted. Accordingly, the Board offers no objection to the expenditure of $67,500 for the recently completed expansion and remodeling of banking quarters.

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
12/2/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 2, 1963

Board of Directors,
Golden Gate National Bank,
San Francisco, California.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Golden Gate National Bank to maintain the same reserves against deposits as are required to be maintained by non-reserve city banks, effective with the first biweekly reserve computation period beginning after the date of this letter.

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.

Item No. 5
12/2/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 2, 1963

Mr. Edward Adams, Jr.,
President,
National Bank and Trust Co.
of Ann Arbor,
Ann Arbor, Michigan.

Dear Mr. Adams:

In your letter of November 13, 1963, you requested that Dr. Paul W. McCracken be granted permission by the Board to continue to serve as a director of your bank and to stand for reelection to that position at the bank's annual meeting in January 1964, while continuing to serve also as a director of Group Securities Incorporated, Jersey City, New Jersey, an open-end investment company. Your letter indicates that Dr. McCracken, apparently because of the prohibition in section 32 of the Banking Act of 1933, as amended (12 U.S.C. 78), has tendered his resignation as a director of your bank. The text of the statute is set forth in the enclosed copy of the Board's Regulation R.

The Board has consistently taken the position over the years that an open-end investment company (or mutual fund) is engaged in the activities described in section 32, so long as it is issuing its shares for sale, since it is apparent that the more or less continued process of redemption of the shares issued by such a company would restrict and contract its activities if it did not continue to issue the shares. Accordingly, as the statute prohibits a director, officer, or employee of a member bank of the Federal Reserve System from serving at the same time as a director, officer, or employee of an open-end investment company, Dr. McCracken could not properly continue as a director of your bank and also as a director of Group Securities Incorporated.

Following requests on several occasions for a review of its position, the Board has adhered to the view expressed above and has declined to provide any exception for interlocking relationships between member banks and open-end or mutual funds in its Regulation R. The Board has not had authority to except individual cases from the prohibition of the statute by the issuance of permits since the statute was amended in 1935.

It is indicated in your letter that you do not believe that there would be any actual conflict of interest arising from simultaneous service by Dr. McCracken as a director of your bank and Group Securities Incorporated. In answer to similar contentions that have been made to the Board from time to time, it has referred to the decision of the Supreme Court of the United States in Board of Governors of the Federal Reserve System v. Agnew, 329 U. S. 421, 449, in which the Court observed that "Section 32 is not concerned, of course, with any showing that the director in question has in fact been derelict in his duties or has in any way breached his fiduciary obligation to the bank. It is a preventive or prophylactic measure. The fact that respondents have been scrupulous in their relationships to the bank is therefore immaterial."

From your letter it appears that if Dr. McCracken cannot serve your bank as a director you may ask him to serve as economic advisor and to attend meetings of the board of directors of the bank. Depending, of course, upon the specific facts as they might develop, such service by Dr. McCracken might well be unobjectionable under the statute, so long as he would serve solely in an advisory capacity, without any authority to vote or make any motions with regard to matters before the board of directors, and he would have no duties or responsibilities, aside from that of advisor, similar to the attributes of any of the positions named in the statute. Before formalizing any such arrangement with Dr. McCracken for his service as economic advisor, you may wish to take up with the Federal Reserve Bank of Chicago the specific nature of the association which he would have with your bank in that capacity. The Federal Reserve Bank will be glad to be of assistance to you with respect to the matter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure

Item No. 6
12/2/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 10, 1963.

Mr. George F. Reeves,
Assistant General Counsel,
Treasury Department,
Washington, D. C. 20220

Dear Mr. Reeves:

In accordance with the request contained in your letter of November 21, 1963, there are set forth below the names of several attorneys at the Federal Reserve Banks who, in cases involving charges of counterfeiting United States currency, would be qualified to testify as expert witnesses in Canadian courts regarding the legal status in the United States of the currency involved and the statutes authorizing its issuance.

Federal Reserve Bank of Boston

O. A. Schlaikjer	Vice President and General Counsel
L. H. Stone	Secretary and Assistant General Counsel

Federal Reserve Bank of Chicago (Detroit Branch)

G. W. Lamphere	Assistant General Counsel

Federal Reserve Bank of Cleveland

P. Breidenbach	Counsel
G. E. Booth, Jr.	Assistant Counsel

Federal Reserve Bank of Minneapolis

M. H. Strothman, Jr.	Vice President and General Counsel

Federal Reserve Bank of New York

J. J. Clarke	General Counsel
E. G. Guy	Assistant General Counsel
T. M. Timlen, Jr.	Assistant Counsel and Secretary
R. Young, Jr.	Assistant Counsel

Federal Reserve Bank of San Francisco

W. F. Scott	General Counsel
W. L. Cooper	Assistant General Counsel

The Presidents of the Reserve Banks concerned are being advised of the names of their attorneys that have been furnished to you, as well as of the contents of the request from the Royal Canadian Mounted Police.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 7
12/2/63

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

December 3, 1963

The Honorable Edward V. Long, Chairman,
Subcommittee on Administrative Practice and Procedure,
Committee on the Judiciary,
United States Senate,
Washington, D. C. 20515

Dear Mr. Chairman:

Enclosed herewith are the reporting forms showing statistical data on the Board's administrative proceedings for fiscal year 1963, pursuant to your request of October 24, 1963.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 8
12/2/63 4184

Office Correspondence

Date November 15, 1963.

To Board of Governors

From Guy E. Noyes

Subject: Study of organization of financial data for research purposes by the University of Wisconsin

The Division of Research and Statistics requests that authorization be granted to contract with the University of Wisconsin for an exploratory investigation of methods of organizing financial data for research purposes, at a cost of $25,000 during the year 1964.

The objective of the proposed study is to design a computer program capable of organizing financial data, primarily from the condition and earnings and dividend reports of insured commercial banks, in such a way as to avoid disclosure of confidential individual bank data while retaining a maximum amount of disaggregate information for research purposes. If such a program is feasible, it would free for outside research much bank data that up to now has had to be withheld because of the confidentiality problem. Making these data available for the use of university scholars would not only facilitate research that would be of value to the Federal Reserve System, but it would also remove a source of irritation and criticism that academicians have often felt toward the System.

The principal investigator for this project would be Edgar L. Feige, Assistant Professor of Economics at the University of Wisconsin. He has done extensive exploratory work in this area and his academic and research background suit him admirably for this task.

Mr. Feige will be drawing for assistance upon several academic specialists in the field of econometrics and statistics, one at the University of Illinois and others at the University of Wisconsin. The project will also require utilization of the large computer at the University of Wisconsin and some program services provided by University personnel in connection with the use of that computer. The cited cost of $25,000 includes estimates of the cost of all of these individuals and facilities during the year 1964. The work set in train by this investigation may well extend for several years, both here at the Board with our own research facilities and independently at the University of Wisconsin. It is expected that the results achieved by the work undertaken during 1964, however, will give us a reasonably clear understanding of the potential feasibility and scope of application of the approach.

Item No. 9
12/2/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 2, 1963.

CONFIDENTIAL (FR)

Dear Sir:

Enclosed is a copy of a letter dated November 20, 1963, from the Secretary of the Treasury about the need for currency in the denominations larger than $100.

In 1946 (Board's letter of June 26, 1946; F.R.L.S. #5811), the Board reaffirmed its action in directing that no further printings of notes in denominations of $500 and over should be requested but stated that the Board would offer no objection to paying out currency in such denominations as long as the present stocks last.

You will recall that in June 1959, Federal Reserve notes in denominations of $500 and over held by the Comptroller of the Currency were destroyed although some of the Reserve Banks requisitioned additional supplies of their notes in the $500 and $1,000 denominations.

It will be appreciated if you will inform the Board as soon as practicable of your views regarding the question raised by Secretary Dillon whether discontinuing the issuance of currency in the higher denominations would impair service to the public, and in particular what, if any, legitimate needs there may be in your District for the high denomination notes.

Very truly yours,

Merritt Sherman,
Secretary.

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

THE SECRETARY OF THE TREASURY
WASHINGTON

NOV 20 1963

Dear Bill:

The Treasury has not printed any currency in denominations larger than $100 since 1945, although some issued prior to that is in circulation or held by Federal Reserve Banks. Apparently there is little public need for higher denominations because of the expanded use of credit, banking facilities and travelers cheques. Incidentally, I am advised that travelers cheques are rarely issued in amounts greater than $100.

The experience of other countries is much the same. In dollar equivalent the largest denomination of currency being issued in Great Britain is $14, in Italy is $16, in West Germany $25, in France $100, and in Japan $28.

Members of the Treasury staff, notably those concerned with revenue matters, suspect that currency of higher denominations is used almost exclusively by persons engaged in illegal enterprises whose transactions are concealed by their not being recorded. The absence of a general demand for these denominations seems to lend weight to their views.

I would appreciate receiving your views, and those of the Federal Reserve Banks, if you think they should be obtained, whether the discontinuance of the issuance of currency in denominations higher than $100 would impair service to the public in that we would fail to supply it with currency for all legitimate needs.

With best wishes,

Sincerely,

Douglas Dillon

Douglas Dillon

The Honorable
William McChesney Martin
Chairman, Board of Governors of the
Federal Reserve System
Washington, D. C.

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

Item No. 10
12/2/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 3, 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 November 22, 1963, the Board approves the designation of the following employees as special assistant examiners for the Federal Reserve Bank of Richmond for the purpose of participating in examinations of State member banks:

J. Edward Thompson
Ronald K. Layman
T. Calhoun Strawhand
James D. Fisher
Richard J. Keen

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.