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
Gov. Shepardson
Gov. Mitchell
Gov. Daane
Minutes of the Board of Governors of the Federal Reserve
System on Monday, December 16, 1963. The Board met in the Board Room
at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mrs. Semia, Technical Assistant,
Office of the Secretary

Messrs. Noyes, Brill, Garfield, Holland,
Williams, Dembitz, Axilrod, Bernard,
Eckert, Fisher, Gehman, Keir, Osborne,
Partee, Weiner, 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

Economic review. The Division of International Finance commented
on international financial developments, following which the Division
of Research and Statistics reviewed domestic economic and financial
developments. Both Divisions then responded to questions arising from
their presentations.

All members of the staff then withdrew except Messrs. Sherman,
Kenyon, Molony, Fauver, Noyes, Furth, and Eckert, and Mrs. Semia, and
the following entered the room:
Ratification of actions. Actions taken by the available members of the Board at the meeting held on December 12, 1963, as recorded in the minutes of that meeting, were ratified by unanimous vote.

Discount rates. The establishment without change by the Federal Reserve Banks of Cleveland, Richmond, St. Louis, Minneapolis, Kansas City, and Dallas on December 12, 1963, and by the Federal Reserve Bank of Atlanta on December 13, 1963, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

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

Letter to Shelby County State Bank, Shelbyville, Illinois, approving an investment in bank premises.
Letter to the Federal Reserve Bank of Chicago regarding the retirement of preferred stock issued by Pinconning State Bank, Pinconning, Michigan, if and when the bank is merged into Peoples National Bank & Trust Company of Bay City, Bay City, Michigan.

Letter to North Shore Investment Corporation, Joliet, Illinois, granting a determination exempting it from all holding company affiliate requirements except those contained in section 23A of the Federal Reserve Act.

Memorandum from Mr. Noyes dated December 12, 1963, regarding a request from Professor Goldfeld of Princeton University for daily data on float.

Messrs. Hooff and Thompson then withdrew from the meeting.

Cash with cash agent banks (Items 5-7). There had been distributed a memorandum dated December 12, 1963, from the Division of Bank Operations attaching a draft of letter that would inform the Presidents of the Federal Reserve Banks that the Board concurred in the action taken by the Conference of Presidents on December 2, 1963, with respect to the topic, "Cash with Cash Agent Banks." The Conference had agreed that the question whether cash placed with a cash agent bank pre-emergency should be Bank cash or Federal Reserve Agent's cash was a matter for determination by the individual Reserve Banks.

The position, first taken by the Presidents in 1955, that cash stored pre-emergency with cash agent banks should be regarded as issued money was reaffirmed in December 1959. Since then, because of the growth in their outstanding notes, some Reserve Banks, particularly Richmond,
had been experiencing difficulty in meeting collateral requirements and at the same time maintaining sufficient unpledged gold certificates to avoid a deficiency in their reserve against deposits. The Richmond Bank had approximately $52 million collateral behind its Federal Reserve notes stored at cash agent banks, which could be freed by making the notes at cash agent banks part of the supply held by the Federal Reserve Agent. The collateral would then become available to back notes issued for current use.

Further comments in the memorandum explored the rationale for the position heretofore held that currency stored at cash agent banks should be considered issued money and the procedures intended to be followed if there should be occasion to pay out such emergency stocks.

In the course of commenting in supplementation of the memorandum, Mr. Daniels noted that the currency stored at cash agent banks by the Richmond Reserve Bank was under the dual control of two groups of officers. It was suggested that the members of one of the two groups of officers could be designated as representatives of the Federal Reserve Agent for the sole purpose of the custody of Federal Reserve notes stored at cash agent banks. He added that Mr. Johnson had made the suggestion that after a temporary period this arrangement might be changed so that the regular Federal Reserve Agent's representatives would be the persons having custody.

In discussion Governor Mills raised the question whether the proposed arrangement, ostensibly intended as a convenience, actually
involved any fundamental relaxation inconsistent with System responsibilities for the issuance and retirement of Federal Reserve notes.

Mr. Farrell responded that in operation alert exercises this problem had been considered in relation to stocks of silver certificates held for emergency purposes. On the exercise assumption that certificates at a Federal Reserve Bank had become unavailable, bookkeeping entries were made transferring the silver backing from the unavailable certificates to certificates theretofore held in custody. Essentially the same thing would be done in the case of Federal Reserve notes; the effect would be to transfer unavailable notes to the status of Agent's cash and transfer the collateral against them to the notes released by the cash agent banks.

Mr. Hexter commented, incident to this matter, that in the early days of the Federal Reserve System no person connected with the operating side of a Reserve Bank was permitted to be a Federal Reserve Agent's representative. As time went on, however, successive steps had been taken to place Federal Reserve notes substantially under the control of a Federal Reserve Bank at the time they were shipped to the Bank. This was sound procedure from the point of view of operations, but in his opinion it was not in accord with the principles of section 16 of the Federal Reserve Act. It would seem desirable, if it could be done, to have section 16 amended. If anything untoward should ever occur, it might be difficult to defend legally the System's seeming disregard for the provisions of that section of the Act.
Governor Mills commented that he saw the practical need for permitting the proposed change in procedure with respect to the classification of notes stored at cash agent banks, yet he was somewhat uncomfortable about the proposal. In an emergency, he envisaged the possibility of starting to flood the country with what had been unissued notes without complete observance of the collateral requirements.

Mr. Farrell replied to the effect that the arrangement with the cash agent banks for the release of notes in an emergency was dependent on the inability of the agent banks to get in touch with the Federal Reserve Bank. The situation would be one in which the Richmond Reserve Bank, for example, was unable to make shipments of notes to its member banks. The Bank could return the notes that it ordinarily would have shipped to the status of Agent's cash, and the cash agent banks would step in by making the shipments of cash that the Reserve Bank otherwise would have made itself. In answer to a question, Mr. Daniels indicated that the total amount of notes placed with cash agent banks was around $200 million, with the Richmond Bank having about $60 million of notes at agent banks. Governor Mills commented that it appeared to him that a rather fundamental change was being proposed for a relatively small reason.

After further discussion, the letter to the Federal Reserve Bank Presidents advising of Board concurrence in the action taken by the Conference of Presidents was approved, Governor Mills' reservations being
noted, with the understanding that copies would be sent to all Federal Reserve Agents. A copy of the letter to the Presidents is attached as Item No. 5. Attached as Item No. 6 is a copy of the letter sent to the Federal Reserve Agent at Richmond in this connection, and attached as Item No. 7 is a copy of a telegram sent to the same party advising of approval of the appointment of certain officers of the Bank as Federal Reserve Agent's representatives for the sole purpose of custody of Federal Reserve notes stored at cash agent banks.

Messrs. Noyes, Daniels, and Eckert then withdrew from the meeting.

Financing of exports (Item No. 8). There had been distributed a memorandum dated December 6, 1963, from Mr. Goodman regarding a request from the Secretary of Commerce in connection with the report of Committee 5--Financing Exports, of the White House Conference on Export Expansion. The committee's report contained the comment that "The Federal Reserve Board should consider extending the term applicable to bankers acceptances from a limit of 180 days to 365 days. This action, if taken, will assist in putting this instrument on a parity with similar instruments in use in Europe and will broaden the market for this type of financing."

The letter from the Secretary of Commerce stated that, since the Board had the primary responsibility for consideration of this recommendation, he would appreciate having the Board's views and comments. Attached to the memorandum from Mr. Goodman was a draft of reply to the Secretary of Commerce.
The proposed reply would indicate that the recommendation of Committee 5 would be borne in mind in connection with the further and continuing review of Board regulations pertaining to bankers acceptances, that the Board would be interested in receiving any views concerning whether the limitation of six months on the maturities of acceptances had resulted in any unmet financing needs that could not be satisfactorily handled by loans or other forms of financing, and that if the members of Committee 5 had information on the subject, it would be helpful if such information could be made available.

In discussion, question was raised whether the reply should not be more positive in stating that the Board saw no need for extending the term applicable to bankers acceptances and in stating that such a need had not come to light in connection with the recent revision of Regulation K, Corporations Engaged in Foreign Banking and Financing under the Federal Reserve Act, and Regulation M, Foreign Branches of National Banks. On the other hand, it was observed that the intent of the language in the draft letter was to elicit better-documented information, if such was available, on the sources of and reasons for the recommendation before taking a final position.

It was understood that the draft letter would be reviewed by the staff in light of the discussion at this meeting, and a reply was approved in such form as seemed most appropriate following the staff review.
Pursuant to this understanding, and following staff review of the matter, the letter of which a copy is attached as Item No. 8 was sent to the Secretary of Commerce on December 18, 1963.

Messrs. Hexter and Furth then withdrew from the meeting.

Memorandum information for Federal budget (Items 9-10). In a letter dated November 29, 1963, the Bureau of the Budget stated that in a recent report on "The Federal Budget as an Economic Document" the Joint Economic Committee had recommended that the coverage of the annual budget documents be enlarged to provide more complete information on financial transactions in which the Government or Government agencies may be involved. The Bureau of the Budget had also been concerned about the exclusion from the budget of a number of activities and transactions affecting the finances of Federal agencies and instrumentalities, and accordingly, proposed to include in the 1965 budget document financial data on a memorandum basis for several activities that had not been reported in the budget, including the revenues and expenditures of the Board of Governors (but not of the Federal Reserve Banks). The data involved would be presented for information purposes only, somewhat like the permanent indefinite trust funds, to provide a more complete disclosure of Government agency activities. They would be in a separate section at the end of the usual trust fund figures, and their presentation in the budget would not affect in any manner the present procedures with respect to budgetary review. The data requested were, specifically, a schedule of program and financing, reflecting costs and/or obligations,
prepared on the same basis as for trust funds; a personnel summary; a summary of sources and application of funds; a statement of revenue, expense, and retained earnings; and a statement of financial condition. There had been distributed a draft of reply to the Budget Bureau expressing the Board's willingness to supply the requested information.

In discussion, representatives of the Controller's Office noted that the providing of the specified information would require considerable work and that there were some technical problems involved, concerning which there would have to be consultation with the Budget Bureau. The further question related to developments over a period of time if the information presently requested was provided and the area of requested data should later be broadened to include information more nearly comparable in scope to that required of agencies operating under appropriated funds and usual Governmental budget procedures.

The discussion also included questions on the extent of information currently requested that would not otherwise be publicly available, in the Board's annual reports or elsewhere, and explanatory remarks were made by Mr. Kakalec and Mr. Sprecher.

The disposition of the Board, as indicated by the remarks of the members, was to feel that the information currently requested should be furnished and that any later requests for additional kinds of information should be considered as and when necessary. Governor Mills stated that he was sympathetic to the position of the Budget Bureau in trying to portray the finances of the Governmental establishment as
12/16/63

a whole. He noted that the Bureau had been specific in excluding the Federal Reserve Banks from the terms of the request, and he could see no objection to complying with the request. Governor Mitchell indicated that he was not sure that he would see objection even if similar information should be requested in relation to the Federal Reserve Banks. Chairman Martin commented that he thought the Board's policy clearly should be one of not resisting requests for disclosure of its affairs in the absence of some good reason. He saw no specific reason for resisting disclosure of the information currently requested by the Budget Bureau.

Accordingly, the letter to the Bureau of the Budget was approved unanimously, subject to the incorporation of a minor editorial change. A copy of the letter, as sent, is attached as Item No. 9. Attached as Item No. 10 is a copy of the supplementary letter sent to the Bureau under date of December 20, 1963.

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

Director appointment. As the result of inquiry made pursuant to the understanding at the meeting on December 9, 1963, it had been ascertained that Lee A. DuBridge, President, California Institute of Technology, Pasadena, California, would not be available for appointment, if tendered, as director of the Los Angeles Branch of the Federal Reserve Bank of San Francisco for the two-year term beginning January 1, 1964.
After discussion it was agreed to ascertain through the Chairman of the Bank whether Simon Ramo, Executive Vice President and Director, Thompson Ramo Wooldridge, Inc., Canoga Park, California, would accept the appointment if tendered, with the understanding that if it were found that he would accept, the appointment would be made.

It was also agreed that if it developed that Mr. Ramo was not available, the same procedure would be followed with respect to Arthur G. Coons, President of Occidental College, Los Angeles, California.

Secretary's Note: It subsequently developed that Mr. Ramo was not available for appointment, but that Mr. Coons would accept the appointment if tendered. Accordingly, a telegram was sent to Mr. Coons on January 6, 1964, advising him of his appointment for the unexpired portion of the two-year term ending December 31, 1965.

Salaries at Cleveland (Item No. 11). In a letter dated December 12, 1963, Chairman Hall of the Federal Reserve Bank of Cleveland advised that the Bank's Board of Directors, at a meeting that day, had recommended the establishment of a salary of $40,000 for President Hickman, as compared with his present rate of $35,000, effective January 1, 1964, and had approved the payment of salary to First Vice President Thompson at his current rate of $25,000 per annum for the period from January 1 to date of retirement within the year 1964.

The Board noted that the proposed increase in the salary of President Hickman would appear to be inconsistent with the terms of the
Board's letter to the Reserve Bank Chairmen of October 5, 1962, setting forth guidelines for fixing salaries of Presidents and First Vice Presidents. These guidelines provided that adjustments might be initiated not oftener than at three-year intervals, except that adjustments for new appointees could be proposed at the end of two years following appointment. President Hickman's appointment was effective May 1, 1963, at which time his current salary rate was fixed.

It was the view of the Board that there should be adherence to the guidelines set forth in the 1962 letter. Accordingly, unanimous approval was given to a letter to Chairman Hall in the form attached as Item No. 11.

The meeting then adjourned.

Secretary's Notes: On December 13, 1963, Governor Shepardson approved on behalf of the Board a letter to the Federal Reserve Bank of Kansas City (attached Item No. 12) approving the appointment of Harry William Green as examiner.

Governor Shepardson also noted on behalf of the Board on December 13, 1963, a memorandum from the Division of Examinations advising that application for retirement had been filed by Lyle B. St. John, Assistant Federal Reserve Examiner, effective at the close of business December 30, 1963.

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

Milo Peterson, Economist, Division of Research and Statistics, from $9,370 to $10,105 per annum, effective December 22, 1963.

Acceptance of resignations

Lynn M. Massel, Statistical Assistant, Division of Research and Statistics, effective at the close of business December 20, 1963.

Elizabeth C. Rose, Draftsman Trainee, Division of Research and Statistics, effective at the close of business December 31, 1963.

Linda M. Snyder, Draftsman Trainee, Division of Research and Statistics, effective at the close of business January 3, 1964.

Outside activity

Mary H. Wilson, Minutes Clerk, Office of the Secretary, to work part time for Air Force Associates.

[Signature]
Secretary
Board of Directors,
Shelby County State Bank,
Shelbyville, Illinois.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an investment, direct and indirect, in bank premises of not to exceed $300,000 by Shelby County State Bank for the purpose of purchasing a site and erecting new banking quarters. This amount includes the entire capital stock of a wholly-owned affiliate, organized to hold title to bank premises, and the indebtedness of the corporation incurred in securing a site.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Mr. Leland M. Ross, Vice President,
Federal Reserve Bank of Chicago,
Chicago, Illinois. 60690

Dear Mr. Ross:

This refers to your letter of December 3, 1963, with respect to the retirement of preferred stock issued by Pinconning State Bank, Pinconning, Michigan, if and when the bank is merged into Peoples National Bank & Trust Company of Bay City. When this preferred stock was issued in 1955, a provision was placed in the Articles of Incorporation providing for the prior approval of the Federal Reserve Bank of Chicago before any retirement thereof, and you have requested advice as to whether such approval may be granted by the Federal Reserve Bank, and also whether the Board's approval is required by paragraph 11 of section 9, which provides that "the capital stock of a State member bank shall not be reduced without the prior consent of the Board."

The Federal Reserve System did not request inclusion of this provision when the stock was issued, and such approval would seem inappropriate where another Federal agency is authorized to approve the merger and must, of necessity, take into consideration the capital of the resulting bank. Furthermore, it is believed that the provision of section 9, above referred to, was meant to apply to reductions of capital by a State bank that is and remains a member of the System. Specific consent of the Board would serve no purpose if a State member bank were merging into another bank. Therefore, neither permission of the Federal Reserve Bank nor of the Board of Governors would seem necessary or appropriate in this instance.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Mr. W. F. Schuetz, Secretary,
North Shore Investment Corporation,
50-54 West Jefferson Street,
Joliet, Illinois.

Dear Mr. Schuetz:

This refers to the request contained in a letter dated November 11, 1963, submitted to the Federal Reserve Bank of Chicago, for a determination by the Board of Governors of the Federal Reserve System as to the status of North Shore Investment Corporation ("Corporation"), as a holding company affiliate.

From the information presented, the Board understands that Corporation's present activities are confined to holding 15,086 (50.29 per cent) of the 30,000 outstanding shares of stock of The Second National Bank of Danville, Danville, Illinois; and it does not, directly or indirectly, own or control any stock of, or manage or control, any other banking institution.

In view of these facts the Board has determined that Corporation is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933 (12 U.S.C. 221a); and, accordingly, it is not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act and does not need a voting permit from the Board of Governors in order to vote the bank stock which it owns.

If, however, the facts should at any time indicate that Corporation might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make further determination of this
Mr. W. F. Schuetz

matter at any time on the basis of the then existing facts. Should activities of or acquisitions by Corporation, particularly in bank stocks even though not constituting control, result in its attaining a position whereby the Board may deem desirable a determination that Corporation is engaged as a business in the holding of bank stock, or the managing or controlling of banks, the determination herein granted may be rescinded.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
MEMORANDUM

December 12, 1963.

TO: Board of Governors  
FROM: Guy E. Noyes

SUBJECT: Goldfeld Request for Daily Data on Float.

This Division has received from Professor Goldfeld of Princeton University a request that we make available to him daily data on Federal Reserve float covering the postwar period. The data could be readily supplied, since they have been summarized on a few large work cards which could be photostated. We recommend that this request be approved.

Professor Goldfeld states that he is interested in applying the technique of spectral analysis to the prediction of float. This is one of the more recent developments in advanced statistical methodology for isolating and measuring various types of repetitive patterns in time series data. Since float has been one of the most troublesome factors to deal with in preparing our reserve projections, any advance in understanding of float behavior resulting from this research would be of immediate practical value to the System. Accordingly, we feel that we should encourage Professor Goldfeld to undertake this project and make the necessary data available.

So far as we are aware, the only occasion on which daily float information has been provided to outside users was in response to the recent request of Mr. Cox of the ABA. The Wednesday figure, of course, is regularly available in the weekly condition statement of the Federal Reserve Banks.
Dear Sir:

At the meeting of the Conference of Presidents on December 2, 1963, the Conference agreed that the matter of whether cash placed with a cash agent bank pre-emergency should be Bank cash or Federal Reserve Agent cash is a matter for determination by the individual Reserve Banks.

This action amends the position previously taken, which was reiterated at the joint meeting of the Board and the Presidents on December 15, 1959, that currency stored at cash agent banks would be Bank cash rather than Agent's cash.

The Board concurs in the action taken by the Conference of Presidents on December 2, and it will have no objection to a Reserve Bank's taking whatever steps are necessary to transfer Federal Reserve notes stored at cash agent banks to the status of unissued currency held by the Federal Reserve Agent. Such action would make available an equivalent amount of collateral to secure notes issued for current use.

A copy of this letter is being sent to the Federal Reserve Agent at your Bank.

Very truly yours,

Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.
Mr. Edwin Hyde,
Federal Reserve Agent,
Federal Reserve Bank of Richmond,
Richmond, Virginia 23213.

Dear Mr. Hyde:

Enclosed is a copy of the Board’s letter of this date to the President of your Bank concurring in the action of the Conference of Presidents on December 2, 1963, with respect to the classification of money stored at cash agent banks.

The letter states that the Board will interpose no objection to a Reserve Bank’s taking the steps necessary to change the status of Federal Reserve notes stored at cash agent banks to unissued money by placing them in the custody of the Federal Reserve Agent. This would free an equivalent amount of collateral, which could then be used as backing for notes issued for current use.

It is understood that the currency stored at cash agent banks by your Bank is under the dual control of two groups of officers, and it has been suggested that the members of one of the groups of officers could be designated as representatives of the Federal Reserve Agent for the sole purpose of the custody of Federal Reserve notes stored at cash agent banks. The Board has no objection to this arrangement.

Please advise the Board by telegram of the names of the persons appointed for this special purpose. Also, please obtain from the General Auditor of the Bank a written statement that in his opinion no conflict would exist between their regular jobs and their special responsibilities as your representatives. Except for Item 4, the information requested to be furnished the Board with respect to appointees of the Federal Reserve Agent, as provided in the Board’s letter of March 20, 1957 (F.R.L.S. #3161), is already on file at the Board. The Item 4 information may be submitted at a later date.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
TELEGRAM
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

EDWIN HYDE, FEDERAL RESERVE AGENT - RICHMOND

REFERRING YOUR TELEGRAM TODAY AND BOARD'S LETTER TO YOU
OF DECEMBER 16, 1963, BOARD APPROVES APPOINTMENT EFFECTIVE TODAY AS
FEDERAL RESERVE AGENT'S REPRESENTATIVES FOR THE SOLE PURPOSE OF
CUSTODY OF FEDERAL RESERVE NOTES STORED AT CASH AGENT BANKS THE
FOLLOWING OFFICERS OF THE FEDERAL RESERVE BANK OF RICHMOND:

HEAD OFFICE

J. GORDON DICKERSON, JR., VICE PRESIDENT
WILLIAM B. HARRISON, III, ASSISTANT VICE PRESIDENT
JOSEPH F. VIVERETTE, ASSISTANT VICE PRESIDENT
J. LANDER ALLIN, JR., ASSISTANT CASHIER
JOHN E. FRIEND, ASSISTANT CASHIER
ARTHUR V. MYERS, JR., ASSISTANT CASHIER

Baltimore

E. RIGGS JONES, JR., ASSISTANT CASHIER
ADOLPH C. WIENERT, ASSISTANT CASHIER

CHARLOTTE

STANHOPE A. LIGON, CASHIER
FRED C. KRUEGER, JR., ASSISTANT CASHIER

IT IS NOTED THAT WRITTEN STATEMENT OF GENERAL AUDITOR,
ITEM 4 INFORMATION, AND OATH OF OFFICE WILL BE FORWARDED.

(SIGNED) MERRITT SHERMAN

SHERMAN.
The Honorable Luther H. Hodges,
Secretary of Commerce,
Washington, D. C. 20230.

Dear Mr. Secretary:

Your letter of November 20, 1963, states that you were following up on the measures taken by Labor, Industry, and appropriate Government agencies on the recommendations incorporated in the report enclosed of the White House Conference on Export Expansion on September 17 and 18, 1963.

Your letter stated:

"The report of Committee 5--Financing Exports--included, among other recommendations, the following:

...The Federal Reserve Board should consider extending the term applicable to bankers' acceptances from a limit of 180 days to 365 days.

"The Committee further commented that such action would assist in putting this instrument on a parity with similar instruments in use in Europe and broaden the market for this type of financing."

You commented that, since the Board of Governors has the primary responsibility for the consideration of this recommendation, you would appreciate views and comments for incorporation in your forthcoming report.

In recent months, the matter of bankers' acceptances has had considerable attention by the Board and its staff in connection with the revision of Regulation M, "Foreign Branches of National Banks," revised effective August 1, 1963, and Regulation K, "Corporations Doing Foreign Banking or Other Foreign Financing Under the Federal Reserve Act," revised effective September 1, 1963. Regulation C, "Acceptance by Member Banks of Drafts or Bills of Exchange," has also been under active study for some time by the Board's staff for purposes of revision. Other Regulations of the Board also include provisions relating to bankers' acceptances.
The recent revisions of Regulation M and Regulation K, referred to above, do not contain any limitations on the maturities of acceptances issued respectively by foreign branches of national banks or corporations doing foreign banking under the Federal Reserve Act. Regulation C, like section 13 of the Federal Reserve Act (12 U.S.C., sec. 372) on which it is based, contains a six months limit on maturity of acceptances. In connection with the review and possible revision of Regulation C, the Board would be interested in receiving any views as to whether the limitation has resulted in any unmet financing needs that could not be satisfactorily handled by loans or other forms of financing; and if the members of Committee 5 have information on the subject it would be helpful if it could be made available to the Board.

Sincerely yours,

Wm. McC. Martin, Jr.
The Honorable Kermit Gordon,
Director,
Bureau of the Budget,
Washington, D. C. 20503.

Dear Mr. Gordon:

Your letter of November 29, 1963, in which you request the Board's assistance in supplying certain memorandum data regarding financial activities of the Board of Governors for inclusion in the 1965 Federal Budget, has been considered by the Board.

The Board will be glad to assist in improving the information regarding financial transactions in which the Government or Government agencies may be involved by providing your office with data regarding its operations. As you know, the Board of Governors of the Federal Reserve System does not operate on appropriated funds but rather on funds derived from assessments levied upon the Federal Reserve Banks. The Federal Reserve Act provides in section 10 that such funds "shall not be construed to be Government funds or appropriated monies." The Board has not in the past supplied detailed data to the Bureau of the Budget regarding its financial operations except as such information is made available in its Annual Report to the Congress.

Your letter states that the data involved in your request would be presented in the Federal budget for informational purposes only, in a separate section at the end of the usual trust fund figures, and that their presentation in the budget would not affect in any manner the present procedures with respect to budgetary review. On this basis, the only problem for the Board is to provide summary schedules of the type described in your letter in a manner that would constitute a useful addition to the Federal Government's budget document.

At the outset I should let you know that the Board's budget year is the calendar year, and that the schedules we would
be able to supply would be for calendar years 1962, 1963, and 1964. We believe, however, that for the purpose described in your letter these will be representative of financial transactions of the type you desire to present. Members of our staff will be glad to work with representatives of the Bureau in providing meaningful information of the kind described in your letter.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.
December 20, 1963.

The Honorable Kermit Gordon,
Director,
Bureau of the Budget,
Washington, D. C. 20503.

Dear Mr. Gordon:

   Supplementing Chairman Martin's letter of December 16, 1963, the following schedules for 1962, 1963, and 1964, which have been prepared on the calendar year basis, are enclosed for use in making a presentation on a memorandum basis of data on the financial operations of the Board of Governors in a separate section of the 1965 Federal budget document.

   1. Salaries and Expenses by object classification
   2. Program and Financing
   3. Personnel Summary
   4. Revenue, Expense, and Retained Earnings
   5. Summary of Sources and Application of Funds
   6. Balance Sheet

   There is also enclosed a brief summary statement of the basic legislation under which the Board operates, its program, and the financing of the Board.

   Members of the Board’s staff have worked with representatives of the Bureau in developing the above statements, and it is understood that they contain the type of data desired for the report referred to in your letter of November 29.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
1. BASIC LEGISLATION -- The Federal Reserve System operates under the provisions of the Act of December 23, 1913, known as the Federal Reserve Act (38 Stat. 251), as amended.

2. PROGRAM -- To carry out its responsibilities under the Act, the Board determines general monetary, credit, and operating policies for the System as a whole and formulates the rules and regulations necessary to carry out the purposes of the Federal Reserve Act. The Board's principal duties consist of exerting an influence over credit conditions and supervising the Federal Reserve Banks and member banks.

3. FINANCING -- Under the provisions of section 10 of the Federal Reserve Act, the Board of Governors levies upon the Federal Reserve Banks, in proportion to their capital and surplus, an assessment sufficient to pay its estimated expenses. The Board, under the Act, determines and prescribes the manner in which its obligations are incurred and its expenses paid. Funds derived from the assessments are deposited in the Federal Reserve Bank of Richmond, and the Act provides that such funds "shall not be construed to be Government funds or appropriated moneys." No Government appropriation is required to support operations of the Board.
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<th>Object Classification (in thousands of dollars)</th>
<th>1962 actual</th>
<th>1963 estimate</th>
<th>1964 estimate</th>
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<td>11 Personnel compensation:</td>
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</tr>
<tr>
<td>Permanent positions</td>
<td>4,462</td>
<td>4,786</td>
<td>5,343</td>
</tr>
<tr>
<td>Positions other than permanent</td>
<td>13</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>Other personnel compensation</td>
<td>40</td>
<td>56</td>
<td>62</td>
</tr>
<tr>
<td>Total personnel compensation</td>
<td>4,515</td>
<td>4,858</td>
<td>5,421</td>
</tr>
<tr>
<td>12 Personnel benefits</td>
<td>658</td>
<td>660</td>
<td>791</td>
</tr>
<tr>
<td>13 Benefits of former personnel</td>
<td>1</td>
<td>35</td>
<td>28</td>
</tr>
<tr>
<td>21 Travel and transportation of persons</td>
<td>356</td>
<td>326</td>
<td>330</td>
</tr>
<tr>
<td>22 Transportation of things</td>
<td>5</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>23 Rent, communications, and utilities</td>
<td>433</td>
<td>504</td>
<td>590</td>
</tr>
<tr>
<td>24 Printing and reproduction</td>
<td>287</td>
<td>367</td>
<td>397</td>
</tr>
<tr>
<td>25 Other services</td>
<td>289</td>
<td>239</td>
<td>329</td>
</tr>
<tr>
<td>26 Supplies and materials</td>
<td>225</td>
<td>294</td>
<td>413</td>
</tr>
<tr>
<td>Services of other agencies</td>
<td>225</td>
<td>294</td>
<td>413</td>
</tr>
<tr>
<td>31 Equipment</td>
<td>32</td>
<td>106</td>
<td>40</td>
</tr>
<tr>
<td>42 Insurance</td>
<td>2</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Total obligations</td>
<td>6,878</td>
<td>7,484</td>
<td>8,448</td>
</tr>
<tr>
<td>Program by activities:</td>
<td>1962 actual</td>
<td>1963 estimate</td>
<td>1964 estimate</td>
</tr>
<tr>
<td>---------------------------------------------</td>
<td>-------------</td>
<td>---------------</td>
<td>---------------</td>
</tr>
<tr>
<td>1. Administrative and Advisory</td>
<td>940</td>
<td>922</td>
<td>1,080</td>
</tr>
<tr>
<td>2. Economic Research and Statistics</td>
<td>1,916</td>
<td>2,158</td>
<td>2,573</td>
</tr>
<tr>
<td>3. Federal Reserve and Member Bank Functions</td>
<td>1,349</td>
<td>1,345</td>
<td>1,412</td>
</tr>
<tr>
<td>4. Staff Services</td>
<td>1,960</td>
<td>2,298</td>
<td>2,499</td>
</tr>
<tr>
<td>5. Defense Planning</td>
<td>53</td>
<td>65</td>
<td>64</td>
</tr>
<tr>
<td>6. Employee Retirement and Insurance Benefits</td>
<td>660</td>
<td>696</td>
<td>820</td>
</tr>
<tr>
<td><strong>Total program costs, funded - obligations</strong></td>
<td><strong>6,878</strong></td>
<td><strong>7,484</strong></td>
<td><strong>8,448</strong></td>
</tr>
</tbody>
</table>

**Financing:**

- **Unobligated balance brought forward** | 337 | 168 | 307 |
- **Income from:**
  - Assessments against Federal Reserve Banks | 6,655 | 7,573 | 8,240 |
  - Sale of publications and miscellaneous | 54  | 50  | 51  |
  **Total income** | **6,709** | **7,623** | **8,291** |
- **Unobligated balance carried forward** | -168 | -307 | -150 |

**Total financing** | **6,878** | **7,484** | **8,448** |
<table>
<thead>
<tr>
<th>Personnel Summary</th>
<th>1962 actual</th>
<th>1963 estimate</th>
<th>1964 estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of permanent positions</td>
<td>651</td>
<td>674</td>
<td>676</td>
</tr>
<tr>
<td>Full-Time equivalent of other positions</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Average number of all employees</td>
<td>602</td>
<td>613</td>
<td>618</td>
</tr>
<tr>
<td>Employees in permanent positions, end of year</td>
<td>600</td>
<td>615</td>
<td>625</td>
</tr>
<tr>
<td>Employees in other positions, end of year</td>
<td>6</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Average GS grade (equivalent)</td>
<td>7.1</td>
<td>7.1</td>
<td>7.1</td>
</tr>
<tr>
<td>Average GS salary (equivalent)</td>
<td>6,950</td>
<td>6,970</td>
<td>7,220</td>
</tr>
<tr>
<td>Other positions:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average salary, Official Staff</td>
<td>17,959</td>
<td>17,850</td>
<td>20,583</td>
</tr>
<tr>
<td>Average salary, Wage Board</td>
<td>6,110</td>
<td>6,076</td>
<td>6,258</td>
</tr>
<tr>
<td>Description</td>
<td>1962 actual</td>
<td>1963 estimate</td>
<td>1964 estimate</td>
</tr>
<tr>
<td>-----------------------------------------------------------------------------</td>
<td>-------------</td>
<td>---------------</td>
<td>---------------</td>
</tr>
<tr>
<td><strong>Board’s operating program (less cafeteria operations)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>6,615</td>
<td>7,530</td>
<td>8,197</td>
</tr>
<tr>
<td>Expense</td>
<td>6,734</td>
<td>7,339</td>
<td>8,299</td>
</tr>
<tr>
<td>Excess of operating revenue over expense or expense over revenue (−)</td>
<td>−119</td>
<td>191</td>
<td>−102</td>
</tr>
<tr>
<td><strong>Nonoperating income or loss (−):</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cafeteria Operations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>94</td>
<td>93</td>
<td>94</td>
</tr>
<tr>
<td>Expense</td>
<td>114</td>
<td>115</td>
<td>119</td>
</tr>
<tr>
<td>Net nonoperating loss</td>
<td>−50</td>
<td>−52</td>
<td>−55</td>
</tr>
<tr>
<td>Excess of total revenue over expense or expense over revenue (−)</td>
<td>−169</td>
<td>139</td>
<td>−157</td>
</tr>
<tr>
<td><strong>Analysis of retained earnings:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained earnings, start of year</td>
<td>337</td>
<td>168</td>
<td>307</td>
</tr>
<tr>
<td>Net change after expenses, current year</td>
<td>−169</td>
<td>+139</td>
<td>−157</td>
</tr>
<tr>
<td>Retained earnings, end of year</td>
<td>168</td>
<td>307</td>
<td>150</td>
</tr>
</tbody>
</table>
## Summary of Sources and Application of Funds (in thousands of dollars)

<table>
<thead>
<tr>
<th>Description</th>
<th>1962 Actual</th>
<th>1963 Estimate</th>
<th>1964 Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obligations (from program and financing)</td>
<td>6,878</td>
<td>7,484</td>
<td>8,484</td>
</tr>
<tr>
<td>Increase (-) or decrease in gross unpaid obligations</td>
<td>- 170</td>
<td>28</td>
<td>- 6</td>
</tr>
<tr>
<td>Gross expenditures</td>
<td>6,708</td>
<td>7,512</td>
<td>8,442</td>
</tr>
<tr>
<td>Revenues and other receipts (from program and financing)</td>
<td>6,709</td>
<td>7,623</td>
<td>8,291</td>
</tr>
<tr>
<td>Increase (-) or decrease in accounts receivable and inventories</td>
<td>- 6</td>
<td>+ 1</td>
<td>- 1</td>
</tr>
<tr>
<td>Applicable receipts</td>
<td>6,703</td>
<td>7,624</td>
<td>8,290</td>
</tr>
<tr>
<td>Net change in cash</td>
<td>- 5</td>
<td>112</td>
<td>- 152</td>
</tr>
</tbody>
</table>
### BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

#### Balance Sheet (in thousands of dollars)

<table>
<thead>
<tr>
<th>Assets:</th>
<th>1962 actual</th>
<th>1963 estimate</th>
<th>1964 estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash in bank</td>
<td>737</td>
<td>849</td>
<td>697</td>
</tr>
<tr>
<td>Accounts receivable and travel advances</td>
<td>12</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>Stockroom and cafeteria inventories, at cost</td>
<td>21</td>
<td>22</td>
<td>22</td>
</tr>
<tr>
<td>Land and improvements, at cost</td>
<td>793</td>
<td>793</td>
<td>793</td>
</tr>
<tr>
<td>Building, at cost</td>
<td>4,063</td>
<td>4,063</td>
<td>4,063</td>
</tr>
<tr>
<td>Furniture and equipment, at cost</td>
<td>666</td>
<td>732</td>
<td>767</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>6,292</strong></td>
<td><strong>6,469</strong></td>
<td><strong>6,353</strong></td>
</tr>
</tbody>
</table>

| Liabilities and fund balances:             |             |               |               |
| Liabilities:                               |             |               |               |
| Accounts payable and accrued expenses      | 383         | 346           | 380           |
| Withheld taxes payable                     | 214         | 228           | 200           |
| **Fund balances:**                         |             |               |               |
| Retained earnings                          | 168         | 307           | 150           |
| Invested capital                           | 5,522       | 5,588         | 5,623         |
| **Total liabilities and fund balances**    | **6,292**   | **6,469**     | **6,353**     |
Mr. Joseph B. Hall, Chairman,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio. 44101.

Dear Joe:

The Board of Governors has considered the salary proposals for President Hickman and First Vice President Thompson as recommended in your letter of December 12.

The proposed increase for President Hickman would be inconsistent with the Board's letter of October 5, 1962, setting forth guidelines for fixing salaries of Presidents and First Vice Presidents providing that meritorious adjustments may be initiated not oftener than at three-year intervals, except that for new appointees they may be proposed at the end of two years following appointment. Mr. Hickman's appointment was effective May 1, 1963, at which time his current salary rate was fixed.

Accordingly, the Board of Governors approves the payment of salary to Mr. Hickman as President for the period January 1 through December 31, 1964, at his current rate of $35,000 per annum, if so fixed by your Board of Directors.

Mr. Thompson as First Vice President for the period January 1 to date of retirement within the year 1964, at his current rate of $25,000 per annum, as requested in your letter.

Sincerely yours,

(Signed) Bill

Wm. McC. Martin, Jr.
Mr. L. F. Mills, Vice President,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri 64106.

Dear Mr. Mills:

In accordance with the request contained in your letter of December 6, 1963, the Board approves the appointment of Harry William Green, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Kansas City, effective January 1, 1964. Please advise the salary rate.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.