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Minutes for February 5, 1964.

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.

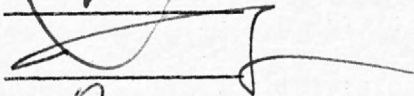
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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.

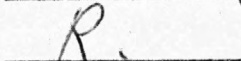
Chm. Martin



Gov. Mills



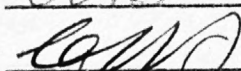
Gov. Robertson



Gov. Balderston



Gov. Shepardson



Gov. Mitchell



Gov. Daane



Minutes of the Board of Governors of the Federal Reserve System on Wednesday, February 5, 1964. 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. Daane

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Bakke, Assistant Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Noyes, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research
and Statistics
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. Shay, Assistant General Counsel
Mr. Conkling, Assistant Director, Division of
Bank Operations
Mr. Daniels, Assistant Director, Division of
Bank Operations
Mr. Kiley, Assistant Director, Division of Bank
Operations
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Smith, Assistant Director, Division of
Examinations
Mr. Egertson, Supervisory Review Examiner,
Division of Examinations

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

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	<u>Item No.</u>
Letter to First State Bank, Odessa, Texas, interposing no objection to an investment in bank premises.	1
Letter to the Federal Reserve Bank of Kansas City ratifying the waiver of a penalty incurred by First National Bank, Wynnewood, Oklahoma, because of a deficiency in its required reserves.	2
Letter to the Secretary of the Treasury regarding whether discontinuing the issuance of currency in denominations of \$500 and over would impair service to the public.	3
Memorandum from Mr. Young dated February 3, 1964, regarding foreign travel for John E. Reynolds, Chief of the Special Studies and Operations Section, Division of International Finance.	4

Conflicting interpretations of Board and Comptroller. There had been distributed a memorandum dated January 28, 1964, from Mr. Hackley submitting, as requested by the Board on January 16, 1964, a revised statement of the Board's position with respect to recent conflicting interpretations of the Board and the Comptroller of the Currency. This was adapted from a proposed draft reply to a letter from a North Carolina banker. There was also submitted an alternative statement embodying a broader and more direct approach to the matter.

In his transmittal memorandum, Mr. Hackley pointed out that the differing interpretations of law by the Board and the Comptroller were creating a situation where national banks and State member banks were being treated differently under the same statutory provisions, thereby threatening to bring the Federal banking agencies into disrepute and to

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undermine respect for the Governmental process. He indicated that if the Board wished to express its views on this matter, he would suggest using the alternative draft either as a public statement, a standard form of reply to inquiries, or a letter to the Banking and Currency Committees of Congress.

Chairman Martin indicated that a letter had been received from Congressman Fascell, Chairman of the Legal and Monetary Affairs Subcommittee of the House Committee on Government Operations, inquiring about these conflicting interpretations, and that the material being considered could be adapted for use in a reply.

Mr. Hackley commented that he had heard the Chief of Staff of the Senate Banking and Currency Committee (Mr. Hale) was preparing a response to a letter from the Comptroller to Senator Robertson regarding the question whether corporations may have savings accounts, wherein the Senator would decline to side with either the Comptroller or the Board on this matter.

Chairman Martin stated that the letter had already been sent, and that a copy had been received. In response to a comment that had this not been the case it might have been appropriate to furnish Mr. Hale with a copy of Mr. Hackley's proposed statement, the Chairman expressed the view that Mr. Hale might still be given a copy of the memorandum. In this connection, Chairman Martin suggested that Mr. Hackley consult with Mr. Cardon, Legislative Counsel.

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Mr. Hackley observed that the material had been prepared as a basis for Board discussion, and that a more comprehensive statement of the Board's position could be developed, given more time.

After Chairman Martin had expressed the view that Mr. Hackley's alternate draft would provide an excellent basis for replying to Congressman Fascell's inquiry, Governor Daane inquired whether the Board would be running the risk of fanning the flames of controversy at a time when he understood there was an interagency committee being formed for the purpose of working out a cooperative approach to overlapping supervisory relationships.

Governor Robertson replied that, as he had indicated at the Board meeting on January 31, 1964, the committee in question was being proposed by the Chairman of the Federal Deposit Insurance Corporation to explore the obtaining of uniformity in three specific areas only--data processing, examination reports, and call reports--and that in any event, the committee was merely in the discussion stage at this time.

Governor Daane then noted that in view of the limited scope of activity contemplated for the committee, his concern about the proposed communication to Congressman Fascell was allayed.

Following a brief further discussion of the committee in question, Chairman Martin commented that the only question before the Board at the moment was that of responding to Congressman Fascell, and it was thereupon agreed that Mr. Hackley's alternative draft would be adapted to this

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purpose for the Board's consideration. At such time the Board could also consider whether copies should be sent to the Chairmen of the Banking and Currency Committees.

Messrs. Hexter, O'Connell, Shay, and Conkling then withdrew from the meeting, and Mr. Sprecher, Assistant Director, Division of Personnel Administration, entered the room.

Outside activities of Reserve Bank personnel. There had been distributed a revised draft of a letter to the Presidents of all Federal Reserve Banks setting forth the Board's views on principles applicable to outside business and teaching activities and certain financial transactions by officers and employees of the Reserve Banks. The letter reflected consideration of suggestions received from the Reserve Banks concerning an earlier draft distributed for comment following Board discussion on September 27, 1963.

Governor Mitchell expressed the view that the restrictions on teaching activities embodied in the letter were unrealistic. Academic contributions of qualified Reserve Bank personnel were in the System's interest, as well as in the interest of the individual concerned and the institution where he was teaching.

There followed an extended discussion of the pros and cons of allowing Reserve Bank personnel to accept compensation for teaching activity carried on during working hours of the Bank. Governors Mitchell and Daane expressed the view that while there necessarily were practical

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limitations on the frequency and timing of such activity, the availability of teaching opportunities was not only an attractive inducement for creative and capable persons to accept employment at the Banks, but the participation of Bank personnel in such activities was valuable to the System. Comment also was made that part of the problem lay in the salary structure. Ideally, persons whose capabilities made them attractive for teaching assignments should receive salaries from the Banks sufficient to compensate for the income potential from outside sources.

Mr. Johnson stated that the restrictions under discussion had not met with objections from the Reserve Banks when the initial draft of the letter was circulated to them for comment; indeed, there were some indications of opinion that an employee who engaged in teaching activity on Bank time should not receive compensation for it.

Mr. Hackley observed that a criminal statute forbids U. S. Government personnel from accepting outside pay for the performance of work in connection with their official position and duties. While this statute was not technically applicable to the Reserve Banks, if a person's teaching was considered as part of his services on behalf of the System there might be criticism on the ground of violation of the spirit of the statute should he accept compensation for it.

Governors Mitchell and Daane reiterated their view that the language of the proposed letter, as it related to teaching activities, was too restrictive, following which Chairman Martin commented that an

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attempt could be made to develop less restrictive language, although this appeared to involve problems both of a legal and a public relations nature.

Governor Robertson suggested that it might be helpful to the Board members, in considering this matter, if they were furnished with copies of the regulations applicable to outside teaching activities of Board personnel and of the outstanding instructions to the Federal Reserve Banks.

Mr. Sherman then directed the discussion to the language of the draft letter regarding receipt of payments for publications by Bank officers and employees. The consensus was that the principles expressed in the letter were sound.

Mr. Sherman also solicited the Board's views regarding the principle stated in the letter governing receipt of compensation for public speaking appearances. Governor Daane expressed the view that this principle should be stringent and strictly applied, and that acceptance of a fee for a speech should be permitted only under exceptional circumstances. A suggestion was made that the line of demarcation should be whether or not the appearance was related to the person's work at the Bank, but following discussion of a number of hypothetical situations posed by Mr. Sherman it was agreed that this was not always an easy distinction to draw in practice.

There was general agreement that the restrictions on financial transactions contained in the letter were satisfactory. Governor Daane

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expressed the view, however, that persons having access to information regarding open market activities should fall under more severe restrictions; for example, they should not be members of investment clubs.

Governor Robertson commented that Governor Daane's suggestion, if adopted, might be extended to persons having access to information bearing upon changes in margin requirements. He also commented on the difficulty involved, when writing rules, in distinguishing between investment and speculative activities, but he concluded that the language of the draft letter was perhaps about as satisfactory as could be devised.

Governor Mitchell suggested that the frequency of trading and use of credit should be emphasized in the letter.

Governor Mills expressed the view that the principles as stated in the letter provided sufficiently clear guidelines for the Reserve Bank Presidents, and Chairman Martin and Governor Balderston concurred. They mentioned the importance of attitudes of officers and employees, a factor that was hard to deal with through regulations.

Mr. Sherman then stated that while the prohibition regarding purchase of stock of a member bank was patterned after the currently outstanding S-letter, the Division of Examinations had suggested that perhaps the prohibition should apply to the purchase of any bank stock.

In discussion of this point, Governor Mills expressed the opinion that the purchase of nonmember bank stock would not seem objectionable where the bank was remote from the District in which the officer or

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employee was located, to which Mr. Solomon replied that while no experience of unethical conduct had prompted the suggestion to prohibit purchases of such stock, the fact that Bank officers and employees do have access to examination reports and other confidential information about nonmember as well as member banks suggested that advantage could be taken of "insider" knowledge. Perhaps, however, any such prohibition could be limited to persons occupying responsible positions at the Banks.

There appeared to be some sentiment favoring a prohibition on the purchase of any bank stock by Reserve Bank officers, but mixed views on whether such a prohibition should be extended to employees, or at least to employees holding responsible positions.

Governor Robertson then turned to the final paragraph of the draft letter and inquired whether, in regard to the matter of disclosure of business activities and indebtedness by Bank personnel occupying responsible positions, pending legislation on the subject that would be applicable to members of Congress did not also include disclosure of investments. If so, perhaps the same disclosure should be required of Reserve Bank officers. Governor Daane added the thought that the same requirement for disclosure might be extended to employees in responsible positions. However, Governors Mills and Mitchell commented that the strength of the System lay in personal integrity, not rules, and that it would be inadvisable to suggest suspicion of everyone and everything. Governor Balderston observed that he was inclined to agree with this view.

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After additional discussion of the letter under consideration, it was understood that a further revised draft would be prepared, for consideration by the Board, in the light of the discussion at this meeting.

The meeting then adjourned.

Secretary's Note: 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:

Appointments

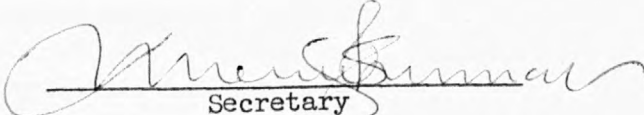
Professor Dorothy S. Brady of the University of Pennsylvania as Consultant to the Division of Research and Statistics, effective to December 31, 1964, on a temporary contractual basis, with compensation at the rate of \$65 per day for each day worked for the Board and, when in travel status, transportation expenses and a per diem allowance to be paid in accordance with the Board's travel regulations.

Audrey Lucile Litman as Statistical Clerk, Division of Bank Operations, with basic annual salary at the rate of \$4,495, effective the date of entrance upon duty.

Acceptance of resignations

Lee W. Joyner, Mail Clerk-Messenger, Division of Administrative Services, effective at the close of business February 7, 1964.

James R. Turner, Offset Press Operator (Multilith), Division of Administrative Services, effective at the close of business February 7, 1964.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
2/5/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 5, 1964.

First State Bank,
Odessa, Texas.

Gentlemen:

The Board of Governors of the Federal Reserve System has been informed by the Federal Reserve Bank of Dallas that during construction of new quarters First State Bank, Odessa, Texas, exceeded by \$31,832.06, before charge-offs of \$19,206.78, the amount approved by the Board under Section 24A of the Federal Reserve Act as set out in the Board's letter of September 3, 1962. 1/

The Board cannot give its prior approval to the expenditure of this amount since said expenditure has already been made. However, if a timely request had been made for the required approval, it appears, on the basis of information available to the Board, that such approval would have been granted. Accordingly, the Board offers no objection to the expenditure of \$31,832.06, which amount exceeded the amount approved by the Board for construction of new quarters.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

1/ Should have read September 13, 1962.

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

Item No. 2
2/5/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 5, 1964.



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

Dear Mr. Clay:

This refers to Vice President Pritz's letter of January 16, 1964, regarding a penalty of \$19.44 incurred by the First National Bank, Wynnewood, Oklahoma, for the reserve period ended October 2, 1963, which was erroneously waived by the Oklahoma City Branch under paragraph E of the Board's instructions.

It is noted that (1) the penalty could have been waived under paragraph E, had a penalty of \$9.73 not been waived under that paragraph less than two years before--for the period ended December 12, 1962; (2) the bank has an outstanding record in the maintenance of its reserve account; and (3) because of the lapse of time involved and the fact that the second waiver was approved in the 1963 accounting year, your Branch is reluctant to assess the member bank.

In the circumstances, the Board ratifies the action taken by the Oklahoma City Branch in waiving the assessment of the penalty of \$19.44 for the reserve computation period ended October 2, 1963.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 3
2/5/64

OFFICE OF THE CHAIRMAN

February 6, 1964.

The Honorable Douglas Dillon,
The Secretary of the Treasury,
Treasury Department,
Washington, D. C. 20220

Dear Doug:

Your letter of November 20, 1963, asked whether discontinuing the issuance of currency in denominations of \$500 and over would impair service to the public. A copy of our letter to the Presidents of the Federal Reserve Banks, asking their views, was enclosed with my December 3 acknowledgment of your inquiry.

Replies have now been received from the twelve Reserve Banks, and there appears to be almost complete agreement that service to the public would not be significantly impaired if the issuance of higher denomination notes were discontinued. One Reserve Bank indicated that a conclusion in this regard was difficult because its net usage of \$500 and \$1,000 notes was considerably greater in 1963 than in previous years, and, in addition, one of its largest member banks expressed the opinion that discontinuance of such notes would result in some impairment of service to the public.

Most of the Reserve Banks feel that there are some legitimate needs for the high denomination notes and mentioned usage for real estate transactions, vacation needs, and transactions with savings and loan association customers and correspondent banks. None of the Banks felt, however, that any justifiable needs for such notes could not be met by use of the lower denominations or by some other means.

Several of the Reserve Banks which inquired of their member banks about the matter were told that usage of the higher denomination currency was for legitimate purposes and that where any question existed, or where it was otherwise applicable, Treasury Department TCR-1 reporting forms had been submitted.

Miscellaneous comments of interest made by the Reserve Banks are summarized below:

We believe that discontinuance of the issuance of currency in the higher denominations would not raise uncertainties in the public's mind, provided "discontinuance" does not mean that currency outstanding in

the hands of the public would be called in for redemption. We believe that the latter action would be very disturbing not only to the public but also to foreign holders of such currency. In this connection, we suggest that, if a decision is made as contemplated, there be a public statement explaining the factual reasons for the action and pointing out that there is no intention to call in for redemption the notes outstanding in the hands of the public, but that such notes will be redeemed in the normal course of business as and when deposited with the Federal Reserve Banks by their member banks. Such a statement might refer to the fact that the Federal Reserve Act, as originally enacted, permitted the printing and issuance of notes in denominations of from \$5 to \$100 only, and that the 1918 amendment to the ninth paragraph of section 16 of the Act, which envisaged the issuance of notes of the higher denominations, was designed to solve a problem that no longer exists. As indicated in the Report (H. Rept. 479, 65th Cong., 2nd Sess.) of the House Committee on Banking and Currency on the bill that effected that amendment, and in the debate in the House that preceded its passage (Cong. Rec., vol. 56, pt. 6, pp. 5573 et seq.) at that time certain individuals, corporations, and banks in particular, were constantly withdrawing large denomination gold certificates from the Federal Reserve Banks for exchange purposes, to pay off balances and for other purposes. The amendment was designed to equip the Federal Reserve Banks to meet such demands by issuing their own notes, rather than gold certificates and thereby enable them to conserve their gold supply. We think the reason for the existence of those notes has long since disappeared.

We are inclined to the view that the contemplated action would be only a minor deterrent to illegal transactions, most of which probably involve currency of denominations lower than \$500.

We would not object to the destruction of all \$500 and \$1,000 notes held by the Reserve Banks with the exception of those wanted for display purposes.

In the past calendar year, our net usage of \$500 and \$1,000 notes was considerably greater than in previous years, and our inquiries have indicated that legitimate needs only have been served.

In 1959, the Federal Reserve Banks and the Board authorized destruction of the \$500-\$10,000 denomination notes then held by the Comptroller of the Currency in Washington, D. C., after some of the Reserve Banks obtained additional notes of the \$500 and \$1,000 denominations.

The Honorable Douglas Dillon

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The Board is of the opinion that any legitimate needs for the higher denomination notes can be met with notes of the denominations now being printed.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Item No. 4
2/5/64

February 3, 1964.

TO: Board of Governors
FROM: Ralph A. Young
SUBJECT: Foreign travel: Mr. John Reynolds

On January 13, the Board approved attendance by Mr. John Reynolds at a meeting of balance-of-payments experts of the OECD countries to be held in Paris on February 10 and 11.

We now understand that the International Monetary Fund is planning to take advantage of the presence of balance-of-payments experts in Paris to continue discussions through the remainder of the week, with a formal session on Thursday, February 13. It is, therefore, recommended that Mr. Reynolds be authorized to extend his stay in Paris until the end of the week for the purpose of participating in these discussions.

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