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 26, 1964. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman 1/
Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Mitchell
Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Noyes, Adviser to the Board
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. Connell, Controller
Mr. Smith, Assistant Director, Division of Examinations
Mr. Thompson, Assistant Director, Division of Examinations
Mr. Matttras, General Assistant, Office of the Secretary

Distributed item. The following item, a copy of which is attached to these minutes as Item No. 1, was approved unanimously:

Letter to Stege Insurance Agency, Inc., Fonda, Iowa, granting a determination exempting it from all holding company affiliate requirements except those contained in section 23A of the Federal Reserve Act.

Chairman Martin joined the meeting at this point and Mr. Thompson withdrew from the room.

1/ Joined meeting at point indicated in minutes.
Discretionary expenditures of Reserve Banks. Pursuant to the understanding at the meeting on February 19, 1964, there had been distributed a memorandum from the Division of Bank Operations dated February 21, 1964, regarding discretionary expenditures of the Federal Reserve Banks, such as expenditures for travel, entertainment, employee benefits, membership dues and contributions, etc. The memorandum proposed two alternative procedures that the Board might wish to adopt with respect to such expenditures. One alternative would require each Reserve Bank to submit quarterly an itemization of discretionary expenditures of various specified types during the preceding three months. The information furnished would be reviewed by appropriate divisions or offices of the Board's staff, and questionable or unusual items would be brought to the attention of the Board. The second alternative would confine the special report to membership dues and contributions and would request each Reserve Bank to submit an annual statement showing expenses for these purposes during the past year and those proposed for the coming year. The second alternative would provide information similar to that obtained in connection with the Reserve Bank budgets prior to 1963.

Governor Mitchell expressed the view that either alternative course of action would be unwise. It would imply that procedures followed by the Board had not been sufficient, and in his opinion they were adequate. The impact on the Reserve Banks should also be considered.
The Board had established general guidelines for Reserve Bank expenditures, and the proposed action would have the effect of scrutinizing everything done under those guidelines. It might be better to withdraw all discretion from the Banks. If the Board thought that any expenditures were improper, it should say so in such a way that the Division of Examinations could enforce the rules laid down. The Banks should not be put in a position of trying to guess what expenditures the Board would regard as proper if reported.

Governor Mills stated that he took a contrary view. It was the Board's statutory duty to exercise general supervision over the Reserve Banks and it was therefore obligatory for the Board to be familiar with expenses of the character that would be described in the proposed letters. This action would in effect revive a practice that was in force prior to the adoption of the present budget procedure, and he felt that the Board had been negligent in discontinuing that practice. It was his view that the Board should send the first alternative letter to the Banks, possibly with more detail, and the staff should lean to the side of criticism rather than leniency in processing the reports until the Board could become better acquainted with these types of expenditures.

Mr. Solomon commented that something might be said for more specific standards, although it was not an easy task to draw up those standards. Many discretionary expenditures of the Reserve Banks were for purposes that had been reported to the Board in the past and were
not objected to at that time. In the circumstances, the examiners did not question such items further.

Governor Mills said that, as he remembered, the Board in the past had made an extensive review of Reserve Bank memberships in various bankers associations, some of which were seeking to assess higher membership dues, and that the Board had expressed some reservations. His basic thought, however, was not necessarily to condemn such expenditures but to assure that the Board would be familiar with what they were, and with the trends involved.

Governor Mitchell expressed the view that the Board had more important responsibilities on which to concentrate than to pass on every Reserve Bank expenditure. Such a procedure would be foreign to the theory of decentralized authority. The statutory requirement for Board supervision was satisfied by the establishment of appropriate general guidelines and review of the reports made by the Division of Examinations. The statute did not require the Board to supervise each Reserve Bank in minute detail.

Chairman Martin stated that he agreed with Governor Mitchell's position. The whole concept of the Federal Reserve System was that each Reserve Bank had a Board of Directors and a President to carry out management responsibilities, with the Board of Governors exercising powers of broad supervision. Perhaps the reports of the Division of Examinations could be improved with regard to the examinations of the Reserve Banks, but the sending of letters at this juncture requesting
detailed reports of expenditures would imply a lack of confidence in the management of the Banks. The System was a large undertaking, and it would hardly be possible to supervise all the Banks minutely from Washington.

Governor Robertson expressed the view that it was desirable to avoid extremes in either direction. The Board had a statutory responsibility for general supervision over the Reserve Banks, which called for assurance that expenditures were in the public interest. Detailed reporting of discretionary expenditures was unnecessary, he thought, but some improvement should be made in the reporting of doubtful items. This could be done by having the Board's examiners resolve doubts on the side of reporting unusual or questionable expenditures to the Board rather than the reverse. Such items could then be scrutinized and evaluated. This procedure would have the advantage of protecting the Banks by affording guidance and sharing responsibility.

The Chairman expressed agreement with the approach suggested by Governor Robertson. If there were a periodic reporting of doubtful items through the examining process as a routine matter, the Board would be in a position of being kept better and more currently advised than at present.

Mr. Solomon commented that the Board should not be under the impression that all doubts on the part of the examiners were resolved in favor of the Reserve Banks. The examiners were reviewing expenditures carefully, and questionable items were taken up with the Banks. However,
he and Mr. Smith had recently presented to the Chief Examiner the idea of attempting to isolate and identify as many doubtful issues of principle as possible. If these were presented to the Board for consideration, the Board could reach a conclusion as to whether certain types of expenditures were objectionable or unobjectionable. This, it was thought, would be of benefit to the Board's examiners and also to the Federal Reserve Banks.

In reply to a question, Governor Robertson said that his suggestion did not necessarily contemplate quarterly reports. What he had in mind was that as doubtful items accumulated, through the process of examination, they would be brought to the Board periodically by the Division of Examinations for review and consideration.

After further discussion, it was agreed, Governor Mills dissenting, to follow the proposal of Governor Robertson that the Division of Examinations be instructed to bring to the attention of the Board periodically for review and consideration questionable expenditures of any significance that the examiners might note in the course of examination of the Reserve Banks. Governor Mills dissented because he felt that the most effective review of discretionary expenditures would result from obtaining regular reports from the Reserve Banks along the lines suggested in the memorandum from the Division of Bank Operations.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:
Letter to Professor Edwin L. Stevens confirming arrangements for him to conduct a 24-hour course in Effective Oral Communication beginning March 18, 1964, for members of the Board's staff as an activity of the Board's Employee Training and Development Program, with the understanding that he would provide his own materials and references for the course, that any materials required by the participants would be supplied by the Board, and that the Board would pay him $750 at the completion of the course.

Letter to the Federal Reserve Bank of Cleveland (attached Item No. 2) approving the appointment of Ivan B. Farrell as assistant examiner.

Letter to the Federal Reserve Bank of Richmond (attached Item No. 3) approving the designation of William T. Cunningham, Jr., as special assistant examiner.

Letter to the Federal Reserve Bank of Minneapolis (attached Item No. 4) approving the appointment of Daryl G. Bach as assistant examiner.

Letter to the Federal Reserve Bank of Dallas (attached Item No. 5) approving the appointment of Dewey C. Williams as examiner.

Letters to the American Telephone and Telegraph Company and General Services Administration (attached Items 6 and 7) authorizing them to proceed with certain changes in the Federal Reserve 81-D-1 Leased Wire System, thus implementing the approval by the Reserve Bank Presidents of a report of the Subcommittee on Cash, Leased Wire, and Sundry Operations dated January 8, 1964. Copies of the letters were sent to the Presidents of all Federal Reserve Banks. It was understood that the cost to the Board would be reflected in its pro rata share of the cost of the Leased Wire System.
February 26, 1964

Mr. Walter W. Stege, President,
Stege Insurance Agency, Inc.,
Fonda, Iowa.

Dear Mr. Stege:

This refers to the request contained in a letter dated February 8, 1964, submitted through the Federal Reserve Bank of Chicago, for a determination by the Board of Governors of the Federal Reserve System as to the status of Stege Insurance Agency, Inc., as a holding company affiliate.

From the information presented, the Board understands that Stege Insurance Agency, Inc. is engaged in soliciting and servicing insurance accounts and selling real estate on a commission basis; that it is a holding company affiliate by reason of the fact that it owns or controls 356 (71.2 per cent) of the 500 outstanding shares of stock of The First National Bank of Fonda, Fonda, Iowa; and that 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 Stege Insurance Agency, Inc. 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 or controls.
If, however, the facts should at any time indicate that Stege Insurance Agency, Inc. 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 matter at any time on the basis of the then existing facts, including additional acquisitions of bank stocks even though not constituting control.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
CONFIDENTIAL (FR)

Mr. Paul C. Stetzelberger, Vice President,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio 44101.

Dear Mr. Stetzelberger:

In accordance with the request contained in your letter of February 18, 1964, the Board approves the appointment of Ivan B. Farrell as an assistant examiner for the Federal Reserve Bank of Cleveland. Please advise the effective date of the appointment.

It is noted that Mr. Farrell is indebted to the Bank of Follansbee, Follansbee, West Virginia, a nonmember bank. Accordingly, the Board's approval of the appointment of Mr. Farrell is given with the understanding that he will not participate in any examination of that bank until his indebtedness has been liquidated.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
Mr. John L. Nosker, Vice President,  
Federal Reserve Bank of Richmond,  
Richmond, Virginia 23213.

Dear Mr. Nosker:

In accordance with the request contained in your letter of February 19, 1964, the Board approves the designation of William T. Cunningham, Jr. as a special assistant examiner for the Federal Reserve Bank of Richmond for the purpose of participating in examinations of State member banks except State-Planters Bank of Commerce and Trusts, Richmond, Virginia.

The authorization heretofore given your Bank to designate Mr. Cunningham as special assistant examiner is hereby canceled.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.
Mr. H. G. McConnell,
Vice President and Secretary,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota 55440.

Dear Mr. McConnell:

In accordance with the request contained in Mr. Deming's letter of February 18, 1964, the Board approves the appointment of Daryl G. Bach as an assistant examiner for the Federal Reserve Bank of Minneapolis, effective March 16, 1964.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
Mr. Thomas R. Sullivan, Vice President,
Federal Reserve Bank of Dallas,
Dallas, Texas. 75222

Dear Mr. Sullivan:

In accordance with the request contained in your letter of February 21, 1964, the Board approves the appointment of Dewey C. Williams, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Dallas, effective March 1, 1964.

It is noted that Mr. Williams is indebted to the Exchange Bank & Trust Company, Dallas, Texas, a nonmember bank, and he will not participate in any examination of that bank until his indebtedness has been liquidated.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
Mr. H. E. West, Jr., Account Manager,  
Long Lines Department,  
American Telephone and Telegraph Company,  
1725 K Street, N. W.,  
Washington, D. C. 20006

Dear Mr. West:

You are hereby authorized to proceed with the installation in the Federal Reserve Leased Wire System of two new circuits from New York to Richmond, and two circuits resulting from a realignment of stations, in accordance with the recommendations contained in your letter of December 3, 1963, to Mr. Clyde Harrell, Chairman, Subcommittee on Cash, Leased Wire and Sundry Operations. It is understood that the cost of this new equipment is to be as follows:

<table>
<thead>
<tr>
<th>Equipment Description</th>
<th>Monthly</th>
<th>Installation</th>
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<tbody>
<tr>
<td>New Circuits - New York to Richmond</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Duplex Terminations Switching Center</td>
<td>$550</td>
<td>$4,000</td>
</tr>
<tr>
<td>2 19 ASR Teletype Machines at New York</td>
<td>160</td>
<td>50</td>
</tr>
<tr>
<td>2 15 ROTeletype Machines at New York</td>
<td>70</td>
<td>50</td>
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<tr>
<td>2 Word Counters at New York</td>
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<td>10</td>
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<tr>
<td>2 Time Clocks</td>
<td>5</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$789</strong></td>
<td><strong>$4,110</strong></td>
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<tr>
<td>Realignment of Stations:</td>
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<td></td>
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<tr>
<td>2 Duplex Terminations Switching Center</td>
<td>$550</td>
<td>$4,000</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$1,339</strong></td>
<td><strong>$8,110</strong></td>
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The General Services Administration has been authorized to effect a TELPAK application to the above circuitry, and they will advise you accordingly.

It is understood that there may be an additional charge rendered by your Company for private line mileage charges.

Very truly yours,
(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.
Mr. Lloyd Bond, Assistant Commissioner
for Communications,
General Services Administration,
Seventh and D Streets, S. W.,
Washington, D. C. 20405

Dear Mr. Bond:

You are hereby authorized to effect a TELPAK application to the Federal Reserve 81-D-1 Leased Wire System in accordance with the proposed circuit additions and realignment previously submitted to your office for purposes of costing. It is understood that the additional TELPAK charges will be approximately $514 per month.

A requisition for the equipment changes involved has been submitted to American Telephone and Telegraph Company by way of Mr. H. E. West, Jr., Account Manager. Please advise Mr. West of the TELPAK configuration.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.