Minutes for March 23, 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 WM

Gov. Mills

Gov. Robertson

Gov. Balderston CCB

Gov. Shepardson

Gov. Mitchell

Gov. Daane

Minutes of the Board of Governors of the Federal Reserve System on Monday, March 23, 1964. 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. Daane

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Young, Adviser to the Board and Director, Division of International Finance
Mr. Noyes, Adviser to the Board
Mr. Fauver, Assistant to the Board
Mrs. Semia, Technical Assistant, Office of the Secretary

Messrs. Brill, Holland, Koch, Garfield, Partee, Williams, Dembitz, Eckert, Gehman, Keir, Osborne, Trueblood, and Weiner of the Division of Research and Statistics

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

Mr. John F. Breen, Jr., Cashier, Little Rock Branch, Federal Reserve Bank of St. Louis

Economic review. The staff of the Division of International Finance commented on developments relating to the U. S. balance of payments and the trade and financial positions of various countries, after which the Division of Research and Statistics reviewed domestic economic developments.

Mr. Breen then withdrew, as did all members of the Board's staff except Messrs. Sherman, Kenyon, Broida, Young, Noyes, Fauver, Brill, Holland, Koch, Partee, Dembitz, Furth, and Eckert, and Mrs. Semia, and the following entered the room:

Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Schwartz, Director, Division of Data Processing
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, 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:

	Item No.
Letter to Inwood National Bank of Dallas, Dallas, Texas, granting its request for permission to maintain reduced reserves.	1
Letters to Manufacturers Hanover International Banking Corporation, and Manufacturers Hanover International Finance Corporation, both of New York, New York, approving proposed amendments to the corporations' articles of association.	2-3
Letter to the Federal Reserve Bank of New York approving the Bank's acting as fiscal agent with respect to a proposed issue of bonds by the Inter-American Development Bank.	4

High-speed counting equipment. There had been distributed a memorandum dated March 13, 1964, from the Division of Bank Operations describing developments following an observation by Stanford Research Institute, during a study of the possibility of developing electronic equipment for currency handling, that the Federal Reserve Bank of

Philadelphia had adopted high-speed mechanical equipment to prove currency deposits, with substantial operating economies but little opportunity for the detection of counterfeits. The Institute's report concluded that electronic currency handling equipment was not economically feasible at the present time, but implied that if the high-speed mechanical equipment was suitable for one Bank, its use should be fostered throughout the System. At its meeting on August 30, 1963, the Board decided to request the views of the Conference of Presidents as to the advantages and disadvantages of using high-speed currency counting equipment to verify incoming deposits of predominantly fit $1, $5, and $10 bills, and whether a uniform System position concerning the utilization of such a procedure would seem desirable. The Conference of Presidents, at its meeting on December 2, 1963, concurred in the recommendations of its Subcommittee on Cash, Leased Wire, and Sundry Operations that "(1) The Reserve System formally recognize its responsibility to produce and distribute finished packages of currency that insofar as reasonably possible do not contain unfit, counterfeits or raised bills. (2) That the Reserve System as a matter of principle avoid prescribing a uniform position for or against utilization of specific types of money-handling equipment. This determination as well as other operating detail should continue to remain with the President of each Reserve Bank."

Although the Presidents' Conference had seemed to avoid weighing the obligation of counterfeit detection against operating economy, the Division of Bank Operations was of the opinion that a decision was needed with respect to that question. Standards of currency fitness were supposed to be reasonably uniform among the Reserve Banks; the degree of care used in detecting counterfeits would appear to be at least as important, and therefore a matter that should not be left to the discretion of individual Reserve Banks. Moreover, countenancing the use by the Reserve Banks of high-speed mechanical equipment that had no counterfeit detecting ability would seem to be inconsistent with the letter sent by the Board to the Secretary of the Treasury on February 13, 1964, expressing the System's concern about possible counterfeiting dangers stemming from improvements in the graphic arts and requesting the cooperation of the Treasury in a study looking toward the redesign of currency to avoid such dangers, that letter having been sent at the urging of the Presidents' Conference.

The Division agreed, however, with an observation by the Subcommittee on Cash, Leased Wire, and Sundry Operations that a reasonable compromise of the question of operating economies of the high-speed mechanical equipment versus the lack of counterfeit detecting ability of such equipment could be achieved by limiting the use of such equipment to $1 bills as long as there were relatively few counterfeits in that denomination. Attached to the memorandum was a draft of letter to the Chairman of the Presidents' Conference that would express such a position.

In response to the Board's request for comments, Mr. Farrell reviewed the circumstances in which the question had arisen, the action of the Presidents' Conference, and the attitude of the Division of Bank Operations, as set forth in the memorandum. Mr. Schwartz agreed with the position of the Division, expressing the view that the use of the high-speed counting equipment, by sacrificing adequate attention to counterfeit detection and by using cost as the primary criterion in choice of methods, represented a dereliction of responsibility for the soundness of the currency. He related this approach to developments that he had observed as to the philosophy governing the use of data processing equipment. The incident of the high-speed counting equipment was, he thought, symptomatic of a much larger issue that deserved consideration at some point. In brief, cost should not be the governing factor in making decisions in the data processing or other areas, to the exclusion of quality considerations.

Governor Mitchell expressed the opinion that the Federal Reserve Bank of Philadelphia had taken the right position. The Treasury Department had not responded as yet to suggestions that it explore the use of methods of currency printing available through modern technology that would permit electronic detection of counterfeits, and in the circumstances the Federal Reserve should not cling to old-fashioned methods of counterfeit detection. Moreover, the important thing was not the detection of a counterfeit among fit currency, but the location and bringing to justice of its issuer.

Mr. Farrell responded to the effect that the incidence of counterfeit detection at commercial banks had been so low that the

United States Secret Service had not found it worth while to continue printing and distributing to banks the card guide to counterfeits that it had formerly provided. The first warning of an outbreak of counterfeiting was likely to come through continued surveillance for the detection of counterfeit bills, and he felt that the Federal Reserve had a responsibility in this regard. As for efficiency of machines, it had not yet been possible to devise an electronic currency counting machine, at least at any reasonable cost, to equal the all-around efficiency of expert currency sorters.

In further discussion of the matter, Chairman Martin commented that the Federal Reserve should not sacrifice quality just for the sake of economy. In this particular instance, however, the basic question revolved around whether the Federal Reserve Banks actually were accomplishing anything of significance by use of the present methods. He did not know enough about the operation to be too confident of the right answer. It might be that over a period of time the Federal Reserve would merely be picking up the tab for the unwillingness of the Bureau of Engraving and Printing to do the best job. The System might be criticized for continuing an old-fashioned operation, particularly if this operation was costly and was not an important deterrent to counterfeiting.

Governor Mitchell commented that he would like to see a statement that would put the operation in its proper perspective. If the purpose was to deter counterfeiting, he would like to know how effective it was.

If the purpose was to keep clean the skirts of the Federal Reserve Banks, or of commercial banks, he would not want to pay too great a price for that, particularly when the Treasury was not taking steps to produce currency of a type that would permit the detection of counterfeits through the use of electronic equipment.

Chairman Martin made the further comment that a problem of this kind was one of the most difficult with which the Board had to deal. The broad principle mentioned by Mr. Schwartz undoubtedly was sound, yet there was also danger of abuse in paying too much attention to quality to the disregard of cost. As to the application of this principle to currency-handling methods, it was difficult for those not expert in the field to make a sound judgment, and he did not consider himself fully qualified.

Governor Robertson then suggested that in this particular case the Board defer the sending of any letter until after the matter could be discussed with President Bopp to get the views of the Federal Reserve Bank of Philadelphia.

Chairman Martin replied that he thought this was a good suggestion. He proposed that a meeting be arranged between the Board and President Bopp, with Messrs. Farrell and Schwartz present.

There was agreement with this suggestion.

Maximum rates on time deposits. There had been scheduled for today's meeting, at the suggestion of Chairman Martin and pursuant to the understanding at the meeting on March 20, a resumption of the discussion on March 11, 1964, of the possibility of an increase in the maximum permissible interest rates payable by member banks on time deposits under the Board's Regulation Q, Payment of Interest on Deposits.

However, members of the Board indicated that they felt there had been a sufficiently satisfactory exchange of views at the March 11 meeting as to make further discussion unnecessary at this juncture.

Mr. Brill made comments on the progress of a staff report exploring the legal feasibility of one of the possible courses of action suggested in his memorandum of March 10, 1964, (namely, to fix different maximum rates on a bank's time deposits on the basis of the relationship between volume of such deposits and total deposits), and on the possibility of expanding the scope of examining surveillance of member banks that reported data showing unusual use of negotiable time certificates of deposit. In general, he said, the recommendations for staff action, as described in the March 10 memorandum, were in process of being implemented.

Governor Mills suggested that the staff endeavor to provide the Board a breakdown of banks issuing negotiable certificates not only by location but by size.

Governor Mitchell noted that the Board had not yet pursued the study of various provisions of Regulation Q that it had begun last fall on the basis of a memorandum from Mr. Hackley.

Request for competitive factor report. Mr. Solomon reported that a request had been received from Mr. Slay, Michigan State Banking

Commissioner, for the Board's report to the Comptroller of the Currency under date of September 24, 1963, on the competitive factors involved in the proposed purchase of assets and assumption of liabilities of Grand Ledge State Bank and Loan and Deposit State Bank, both of Grand Ledge, Michigan, by Michigan National Bank, Lansing, Michigan. The Comptroller had approved, but the State Attorney General was seeking a temporary injunction against consummation of the transactions.

During discussion of the matter, Governor Mills commented that this was the second request from Commissioner Slay for a competitive factor report. (The Board had complied with the first, an action from which Governor Mills had dissented.) Governor Mills regarded such requests as improper. He went on to bring out that the whole question of the practice that the Board should follow in releasing its competitive factor reports had been deferred following preliminary discussion at the Board meeting on February 17, 1964, with the understanding that the question would be brought up again for consideration in about 30 days, during which time the staff was to obtain views of the other bank supervisory agencies.

Mr. Shay said that an additional memorandum on the subject had been prepared under date of March 19, 1964, and was in process of being distributed to the Board. After reviewing briefly the Board's current practice regarding the release of competitive factor reports, he went on to say that in a telephone conversation a member of the legal staff of the Comptroller's Office had disclaimed knowledge as to whether, in the Michigan case under discussion, copies of the competitive factor reports had been given by the Comptroller to the applicant bank.

Governor Mitchell said he saw no reason not to comply with Commissioner Slay's request, and Governor Robertson expressed the same view, particularly since the Comptroller had already acted on the application.

Governor Mills asked Mr. Shay whether this would constitute breaking faith with the other bank supervisory agencies, in view of the informal discussions that were taking place with their representatives prior to Board consideration of the general question of releasing its reports. Mr. Shay replied that he did not think it would. The Comptroller's decision, reflecting his consideration of all aspects of the application, was publicly available, and the Board's report on the competitive factors involved was one of the aspects presumably considered. Mr. Shay went on to say, however, that a release of the report to Commissioner Slay might conceivably be regarded as incompatible with the tenor of the Secretary of the Treasury's letter to the three bank supervisory agencies of March 3, 1964.

Governor Robertson commented that he did not see any relevance, but Governor Mills noted that the Comptroller of the Currency, in approving the application, had taken a position different from the view expressed by the Board insofar as the competitive factors were concerned.

The matter was now in litigation, and the Board's report, if released to Commissioner Slay, would be used by the latter in an effort to upset the Comptroller's action.

Chairman Martin then remarked that as long as any member of the Board had a question about the propriety of releasing the report, he doubted whether the issue should be pressed, particularly in the present circumstances. It had been his own view right along that the sooner the Board instituted a clear-cut procedure of releasing its competitive factor reports, the better off it would be. The 30-day delay in reaching a decision following the discussion on February 17 had resulted in the present question arising. He proposed that the new memorandum from Mr. Shay be considered promptly by the Board, and that in the meantime the requested report not be furnished to Commissioner Slay.

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:

Salary increases, effective March 29, 1964

Division of Administrative Services

Quincy W. Barnes, Operator (Mimeograph), from $4,410 to $4,638 per annum, with a change in title to Operator (Xerox-Mimeograph).

Aaron Dortch, Operator (Xerox-Mimeograph), from $5,138 to $5,408 per annum, with a change in title to Operator (Offset Press and Multilith).

Salary increases, effective March 29, 1964 (continued)

Division of Administrative Services

William Jay, Messenger, from $3,305 to $3,620 per annum, with a change in title to Mail Clerk-Messenger.

Abraham Rose, Mail Clerk, from $4,405 to $4,618 per annum, with a change in title to Operator (Mimeograph).

Joseph C. Stratton, Jr., Messenger, from $3,410 to $3,620 per annum, with a change in title to Supply Clerk.

Advance of sick leave

Kathleen J. O'Connor, Disbursing Clerk, Office of the Controller, from March 9 (3 hours) through March 20, 1964.

Secretary

Item No. 1
3/23/64

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 23, 1964

Board of Directors,
Inwood National Bank
of Dallas,
Dallas, Texas.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of Dallas, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Inwood National Bank of Dallas to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective as of the date it opens for business.

Your attention is called to the fact that such permission is subject tc revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 2
3/23/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 23, 1964

Manufacturers Hanover International
Banking Corporation,
44 Wall Street,
New York 15, New York.

Gentlemen:

Reference is made to your letter dated March 5, 1964, transmitted through the Federal Reserve Bank of New York, advising that your Corporation desires to amend Articles Fifth and Sixth of its Articles of Association to read as follows:

"FIFTH. The Board of Directors shall consist of 9 members. The first meeting of the shareholders for the election of directors shall be at 44 Wall Street, New York 5, N.Y. on the 5th day of March, 1962 or at such other place and time as a majority of the undersigned shareholders may direct."

"SIXTH. The regular annual meeting of the shareholders for the election of directors shall be held each year in the United States, at the home office of the corporation or at such other place in the City of New York as may be designated in the notice of such meeting, upon the date fixed by the directors in the by-laws of the corporation, and all elections shall be held according to such regulations as may be prescribed by the Board of Directors not inconsistent with the provisions of section 25(a) of the Federal Reserve Act, and of these articles."

In accordance with your request and pursuant to the provisions of Section 211.3(a) of Regulation K as revised effective September 1, 1963, the Board of Governors approves the proposed amendments to your Articles of Association.

Upon adoption of the amendments to the Articles of Association, please furnish the Board of Governors, through the Federal Reserve Bank of New York, two copies of the amendments duly certified by an officer of your Corporation.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

Item No. 3
3/23/64

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 23, 1964

Manufacturers Hanover International
Finance Corporation,
44 Wall Street,
New York 15, New York.

Gentlemen:

Reference is made to your letter dated March 5, 1964, transmitted through the Federal Reserve Bank of New York, advising that your Corporation desires to amend Articles Fifth and Sixth of its Articles of Association to read as follows:

"FIFTH. The Board of Directors shall consist of 9 members. The first meeting of the shareholders for the election of directors shall be at 44 Wall Street, New York 5, N.Y. on the 5th day of March, 1962 or at such other place and time as a majority of the undersigned shareholders may direct."

"SIXTH. The regular annual meeting of the shareholders for the election of directors shall be held each year in the United States, at the home office of the corporation or at such other place in the City of New York as may be designated in the notice of such meeting, upon the date fixed by the directors in the by-laws of the corporation, and all elections shall be held according to such regulations as may be prescribed by the Board of Directors not inconsistent with the provisions of section 25(a) of the Federal Reserve Act, and of these articles."

In accordance with your request and pursuant to the provisions of Section 211.3(a) of Regulation K as revised effective September 1, 1963, the Board of Governors approves the proposed amendments to your Articles of Association.

Upon adoption of the amendments to the Articles of Association, please furnish the Board of Governors, through the Federal Reserve Bank of New York, two copies of the amendments duly certified by an officer of your Corporation.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

Item No. 4
3/23/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 23, 1964

Mr. H. A. Bilby, Vice President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Bilby:

This refers to your letter of March 13, 1964, and enclosures, relating to the proposed issuance by the Inter-American Development Bank of Twenty-Year Bonds of 1964, due April 1, 1984, in the aggregate principal amount of $50 million. You advise of the Inter-American Development Bank's proposal to appoint the Federal Reserve Bank of New York its Fiscal Agent through amendment of Schedule A of the Fiscal Agency Agreement, dated as of December 7, 1962, between Inter-American Development Bank and your Bank, and request the Board's approval of your Bank's acting in the proposed capacity.

The Board of Governors approves of your Bank acting as Fiscal Agent in respect of the proposed issue by the Inter-American Development Bank of Twenty-Year Bonds of 1964, and approves the execution and delivery by your Bank of an Agreement with the Inter-American Development Bank substantially in the form of the draft enclosed in your March 13 letter of Supplement No. 1 to the Fiscal Agency Agreement, dated as of December 7, 1962, between your Bank and Inter-American Development Bank.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.