

Minutes for May 13, 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

RM

Gov. Mills

[Signature]

Gov. Robertson

[Signature]

Gov. Balderston

[Signature]

Gov. Shepardson

[Signature]

Gov. Mitchell

[Signature]

Gov. Daane

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, May 13, 1964. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant 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. Shay, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Smith, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Spencer, General Assistant, Office of the Secretary
Miss Hart, Senior Attorney, Legal Division
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 Union Bank and Trust Company of Greensburg, Greensburg, Indiana, approving the establishment of a branch in the Greensburg Plaza Shopping Center, Washington Township.	1
Letter to Nevada Bank of Commerce, Reno, Nevada, approving the establishment of a branch in Winnemucca.	2
Letter to Union Commerce Bank, Cleveland, Ohio, regarding the provisions of a proposed contract under which funds of a political subdivision would be accepted as a time deposit, open account.	3
Letter to Professor Vernon A. Mund, University of Washington, Seattle, Washington, regarding the status of Marine Bancorporation, Seattle.	4
Letter to the Federal Reserve Bank of New York interposing no objection to an extension of the Bank's program for advanced education of its personnel.	5
Letter to the Chairman of the Conference of Presidents regarding Federal Reserve Bank currency and coin service to the public.	6

Publication of certain Board actions in weekly release. In connection with Item No. 4, the last paragraph of which would disclose unpublished information, question was raised whether there would be objection to publishing in the weekly H.2 release (Applications Received or Acted On by the Board) actions taken on applications for determination of holding company affiliate status (section 301 determinations).

After discussion, it was understood that such actions would be announced in the weekly release, along with actions on applications of holding company affiliates for voting permits.

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Messrs. Hooff and Egertson then withdrew from the meeting.

Reserve Bank safekeeping procedures (Items 7, 8, and 9). There had been distributed a memorandum dated May 8, 1964, from the Division of Examinations with regard to the report of the Ad Hoc Subcommittee of the Conference of Presidents on Safekeeping Procedures.

The memorandum pointed out that a Special Subcommittee of the House Committee on Banking and Currency had conducted a study of the apparently inadvertent disappearance of certain securities from the vault at the San Francisco Reserve Bank in 1962. Following that study, the House Subcommittee submitted a report in which certain comments were made on the diversity of practices among the Reserve Banks in safekeeping procedures. In view of those comments, the Board by letter dated July 26, 1963, requested the Conference of Presidents to make a study of the safekeeping function in the Federal Reserve Banks and recommend general standards for the safekeeping of securities coming into their possession. The Conference of Presidents subsequently appointed an Ad Hoc Committee on Safekeeping Procedures, which in turn appointed a Subcommittee to make the basic study. The Subcommittee submitted its report to the senior Committee on January 31, 1964, and the report was approved by the Conference of Presidents at its meeting on March 2, 1964. It was recommended by the Division of Examinations that the Board of Governors approve the report as a guide to be followed by all of the Reserve Banks in their procedures related to the securities safekeeping function.

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The memorandum went on to note that the report on the study of safekeeping procedures would seem to meet the recommendation of the Special Subcommittee of the House Banking and Currency Committee for administrative standards to be followed by the Reserve Banks in their securities safekeeping operations. The memorandum pointed out, however, that the House Subcommittee's statement that "coordination of management practices is an obvious and desirable function for the Board to perform" apparently was intended as a general comment and not limited to the safekeeping of securities alone. In particular, other departments for which the development of uniform standards might be considered would be the Cash Department, the Fiscal Agency Department (Government Bond), and the Noncash Collection Department. It was suggested that if the Board wished to pursue this matter there would seem to be two alternative courses that might be followed, namely: (1) the Board might suggest to the Reserve Banks that the principles set forth in the report on securities safekeeping practices be made applicable, with appropriate adaptations, to the handling of valuables of all types; or (2) the Board might request the Conference of Presidents to cause to be developed sets of standards for each of the operations mentioned, somewhat as had been done for safekeeping procedures. In this connection, there were attached four draft letters, one or more of which might be used depending on the approach that the Board might wish to follow.

At the outset of discussion, unanimous approval was given to the report of the Ad Hoc Subcommittee of the Conference of Presidents,

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with the understanding that the report would constitute a standard guide to be followed by each Federal Reserve Bank for its securities safekeeping operations. This action was reflected in a letter subsequently sent to the Presidents of all Federal Reserve Banks, a copy of which is attached as Item No. 7.

As the discussion proceeded, agreement was expressed with a suggestion by Governor Robertson that the Board send to the Chairman of the Conference of Presidents a letter that would acknowledge the report of the Ad Hoc Subcommittee and request the Conference to initiate similar studies designed to develop sets of standards for the custody of negotiable items of value of all types, with particular reference to cash, fiscal agency, and noncash collection operations. Accordingly, unanimous approval was given to a letter in the form attached as Item No. 8.

Following approval of the letter to the Conference of Presidents, Mr. Solomon pointed out that President Hayes of the New York Reserve Bank had advised the Board by letter dated April 10, 1964, that it would be impracticable for the Bank to comply literally with a recommendation made by the Ad Hoc Subcommittee for dual custody with respect to securities in the vault. (President Hayes' letter was the subject of a memorandum included with the one of May 8, 1964, from the Division of Examinations regarding the report of the Ad Hoc Subcommittee.) Mr. Solomon noted that a draft of reply to President Hayes had been prepared that would state that his comments had been referred to the Division of Examinations

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with the understanding that in the course of the next regular examination of the New York Bank the field examining staff would appraise the safekeeping procedures in effect at the New York Reserve Bank and reach a conclusion as to whether such procedures could be regarded as meeting the intent of the standards recommended by the Ad Hoc Subcommittee.

There being no objection, the letter to President Hayes was then approved unanimously. A copy is attached as Item No. 9.

Securities reported missing by member bank. In connection with the foregoing discussion, Mr. Solomon stated that Mr. Schremp, a member of the staff of the House Banking and Currency Committee, had inquired whether there had occurred in 1963 or 1964 any incidents of a nature similar to the inadvertent disappearance in 1962 of securities from the San Francisco Reserve Bank.

Mr. Solomon noted that while there had been nothing similar to the San Francisco incident, earlier this year certain securities were reported missing by State Street Bank and Trust Company, Boston, Massachusetts. As the Board would recall, there was involved a parcel of \$200,000 of U. S. Treasury notes issued by the Boston Reserve Bank on the basis of a wire transfer transaction originating at the New York Reserve Bank and sent by Brink's messenger, along with other parcels of U. S. Government securities, to the member bank in a sealed envelope. A week after the date of delivery, the member bank advised the Reserve Bank that the parcel of Treasury notes could not be located, but checks

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by the Fiscal Agency Department and the Audit Department had proved unavailing. Mr. Solomon noted that this matter was considered at the meeting of the Board on April 1, 1964, and that a report of the incident had been transmitted to the Department of Justice in the manner that reports of possible criminal violations involving State member banks are customarily transmitted.

Following discussion, it was agreed that Mr. Schremp should be informed that there had been no incident in 1963 or 1964 similar to the one in 1962 at the San Francisco Reserve Bank, but that the incident referred to above had occurred.

Mr. Johnson then withdrew from the meeting.

Question under section 32 of service by Robert W. Winthrop. At the Board meeting on April 7, 1964, consideration was given to the application of section 32 of the Banking Act of 1933 to the service of Robert W. Winthrop as a director of First National City Bank of New York and as a partner in the firm of Wood Struthers & Winthrop, New York, New York. The Board's decision at that meeting was that section 32 would apply and that Mr. Winthrop would therefore be prohibited from serving both as a director of First National City Bank and as a partner in the firm mentioned.

Chairman Martin reported at today's meeting on telephone conversations with George S. Moore, President of First National City Bank, who had inquired whether the Board would reconsider the matter.

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In the discussion that followed, the circumstances of the case were reviewed in detail. It was noted, among other things, that the substance of the Board's decision had been published in the Federal Register.

At the conclusion of the discussion, it was understood that Chairman Martin would inform Mr. Moore that he had raised the question with the Board and that it was not disposed to reconsider the matter.

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

Philip N. Margolius as Summer Law Clerk, Legal Division, with basic annual salary at the rate of \$4,690, effective the date of entrance upon duty.

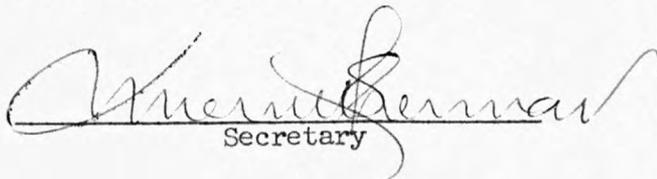
Mary Ann Rose as Mailing List Clerk and Flexowriter Operator, Division of Administrative Services, with basic annual salary at the rate of \$3,620, effective the date of entrance upon duty.

Acceptance of resignations

Richard C. Pickering, Economist, Division of Research and Statistics, effective at the close of business May 16, 1964.

Franklin R. Edwards, Economist, Division of Research and Statistics, effective at the close of business May 30, 1964.

Bette L. Robinson, Statistical Assistant, Division of International Finance, effective at the close of business June 20, 1964.


Secretary

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Item No. 1
5/13/64

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 13, 1964

Board of Directors,
Union Bank and Trust Company
of Greensburg,
Greensburg, Indiana.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Union Bank and Trust Company of Greensburg, Greensburg, Indiana, of an out-of-town branch in Greensburg Plaza Shopping Center, Washington Township, Decatur County, Indiana, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)





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

Item No. 2
5/13/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 13, 1964

Board of Directors,
Nevada Bank of Commerce,
Reno, Nevada.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Nevada Bank of Commerce of a branch in the vicinity of the intersection of Second and Bridge Streets, Winnemucca, Nevada, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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Item No. 3
5/13/64

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 13, 1964



Mr. Charles A. Baker,
Vice President and Counsel,
Union Commerce Bank,
Euclid Avenue at East Ninth Street,
Cleveland 1, Ohio.

Dear Mr. Baker:

This refers to your letter of April 20, 1964, addressed to the Board's General Counsel, regarding a proposed deposit contract under which funds of a political subdivision would be accepted as a time deposit, open account, with a stated maturity of 3 months, but with provision for automatic renewal for successive periods of 3 months if not withdrawn at maturity, or for withdrawal pursuant to either 30 days' or 90 days' written notice. It is understood that the deposit would bear interest at a rate of 4 per cent if withdrawn at the end of any 3-month period or pursuant to 90 days' notice, or one per cent from the date of deposit or the beginning of any renewal period if withdrawn pursuant to 30 days' notice.

Such a deposit would appear to comply with requirements of the Board's Regulation Q, since repayment of the deposit with interest at a rate of 4 per cent would in no case occur except after a period of 90 days from deposit or after the expiration of 90 days' notice, and since repayment after a shorter period of notice would be made with interest at a rate of one per cent from the date of deposit or any renewal of the contract.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 4
5/13/64

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



May 13, 1964

Mr. Vernon A. Mund,
Professor of Economics,
University of Washington,
Department of Economics,
Seattle 5, Washington.

Dear Professor Mund:

This is in response to your letter of April 28, 1964,
to the Board's General Counsel, inquiring as to the powers of
regulation of the Federal Government with respect to Marine
Bancorporation, Seattle, Washington, which controls the National
Bank of Commerce.

It appears that Marine Bancorporation does not own 25 per
cent or more of the stock of any bank other than the National Bank
of Commerce. Accordingly, it is not a "bank holding company"
within the meaning of the Bank Holding Company Act of 1956, since
a company does not meet the definition of that term unless it owns
or controls 25 per cent or more of the stock of each of two or more
banks. For your information in this connection, there is enclosed
a copy of the Board's Regulation Y, issued pursuant to the Bank
Holding Company Act, which includes in the Appendix the text of
that Act. The provisions defining a "bank holding company" will be
found in section 2 of the Act on page 10 of the pamphlet copy of
the Regulation.

Certain provisions of law enacted in 1933 provide for the
regulation of "holding company affiliates", as distinguished from
bank holding companies. A company falls within the definition of
a holding company affiliate if it owns or controls 50 per cent or
more of the stock of a bank which is a member of the Federal Reserve
System, unless the Board of Governors of the Federal Reserve System
determines that the company is not engaged as a business in holding
the stock of, or managing or controlling, banks, banking associations,
savings banks, or trust companies.

The Board of Governors has determined that Marine
Bancorporation is not a "holding company affiliate" for purposes
of the 1933 provisions of law, except for purposes of section 23A

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. Vernon A. Mund

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of the Federal Reserve Act relating to member bank loans to, or investments in, their affiliates. Accordingly, Marine Bancorporation is not subject to regulation under those provisions of law, except to the extent that loans by National Bank of Commerce to Marine Bancorporation would be subject to the limitations prescribed in section 23A of the Federal Reserve Act. There is enclosed a copy of the Board's Regulation P, relating to holding company affiliates, which contains in an Appendix the provisions of law relating to such affiliates. The definition of a "holding company affiliate" is set forth on page 8 of the pamphlet copy of this Regulation.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 5
5/13/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 13, 1964



Mr. Alfred Hayes,
President,
Federal Reserve Bank of New York,
New York, New York 10045.

Dear Mr. Hayes:

Reference is made to Mr. Timlen's letter of February 20, 1964, informing the Board of the extension of your Bank's program for the advanced education of personnel, as set forth in the memorandum enclosed with his letter.

The Board noted with interest the proposed "Research Fellows" program and has no objection to the scope of the Bank's advanced education program being extended in this manner.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



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

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Item No. 6
5/13/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 21, 1964.

Mr. Alfred Hayes, Chairman,
Conference of Presidents,
c/o Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Hayes:

The Board has noted with some concern the action of the Conference of Presidents on December 2, 1963, (a) rejecting for the second time a recommendation by the Subcommittee on Cash, Leased Wire, and Sundry Operations that coin service to the public be restricted to exchanges for uncurrent coin and that currency payments be limited to exchanges for unfit currency; and (b) in lieu of this recommendation, approving the adoption of, as uniform policies--

With respect to coin service by the Reserve Banks to the public, the payment of a maximum of one dollar in pennies, two dollars in nickels, five dollars in dimes, and ten dollars in quarters, half-dollars and silver dollars with the understanding that the payment of any silver dollars by a Reserve Bank would be at its option.

With respect to currency payments to the public, that the Reserve Banks shall determine what lawful money, including Federal Reserve notes, shall be given in exchange for Federal Reserve notes.

The Federal Reserve Banks are, of course, required to redeem their own notes, and the Board has no question about the desirability of leaving to the individual Banks the determination of what "lawful money" shall be given in redemption of Federal Reserve notes. However, with respect to the proposal regarding coin service to the public, the Board does have several questions, as indicated below.

Mr. Alfred Hayes

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Need for Services

It seems to the Board that the proposed service would be of benefit mainly to coin dealers and collectors, and to Reserve Bank employees with numismatic interests. In addition, there might be some requests from small businesses in the neighborhood of the Reserve Bank and from casual passers-by.

In its reply to questions received last year from Coin World, the Board stated that there are no statutes or regulations that require the Federal Reserve Banks to provide coin service to individuals. In addition, the Board has repeatedly stated in replies to other inquiries that, as a matter of policy, the Reserve Banks consider it their responsibility to provide coin only for use as a circulating medium and, hence, will not knowingly provide coin intended for dealers or collectors.

While the Board sees no objection to a Reserve Bank's cashing checks for its own employees and for others when considered appropriate, it does have serious doubts about the advisability of making available even limited amounts of coin to employees. Since the desire on the part of employees for coin would seem to stem mainly from numismatic interests, the Board believes that the Reserve Banks should lean over backwards to avoid the dangers that might develop in this regard.

Providing coin for small business and casual passers-by would not seem to be in keeping with the concept of the Federal Reserve Banks as bankers' banks. Furthermore, if a window were provided for this purpose there would seem to be a strong likelihood of problems in excluding dealers and collectors from access to it.

Implementation

Experience indicates that inquiries lead to publication of Federal Reserve Bank coin policies in various trade papers; that collectors and dealers make "tests" to see whether procedures at individual Reserve Banks are in accordance with stated policies; and that variations in procedures result in complaints from Congress, as well as from the general public.

Mr. Alfred Hayes

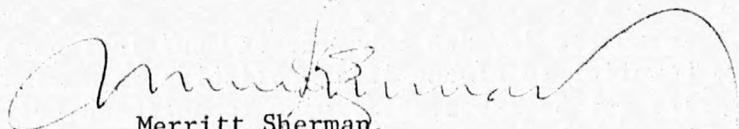
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Experience also indicates that deliveries of new coin to the Reserve Banks quickly become known to collectors and dealers.

Under such circumstances, if the proposal to make limited coin service available to the public became System policy, the Board believes that it would be necessary to take steps to see that there was uniform implementation of the policy at all Federal Reserve Banks and Branches. For example, it would probably be necessary to allot for use by the Reserve Bank public window a share of new coin receipts proportionate to that allotted to member banks, even though such a practice--in the light of the recent Treasury experience--would be likely to create undesirable incidents at the Reserve Banks. Among other problems would be that of policing the maximum amounts allowed each person.

Inasmuch as the records do not indicate the views of the Presidents with respect to the above matters, the Board would like to have the question of coin service to the public reconsidered at the forthcoming Conference of Presidents. On the basis of information it now has, the Board is inclined to believe that it would be desirable to restrict such services to exchanges for uncurrent coin, particularly in view of the probability that the present coin shortage will continue for some time. If, however, the Presidents feel after reconsideration that more extensive coin services to the public would be desirable, the Board would like to have their comments with respect to the need for such service and the manner in which it would be implemented.

Very truly yours,



Merritt Sherman,
Secretary.

cc: Mr. Timlen

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

Item No. 7
5/13/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 20, 1964.

Dear Sir:

By letter dated July 26, 1963, the Board requested the Chairman of the Presidents' Conference to cause a study to be made for the purpose of recommending general standards for the safekeeping of securities from the time of their receipt at the Federal Reserve Banks until their release from custody. An Ad Hoc Committee of the Presidents' Conference was appointed to carry out such a study, and the Ad Hoc Committee in turn appointed an Ad Hoc Subcommittee on Safekeeping Procedures.

The Board has recently received from the Secretary of the Conference of Presidents a copy of the report submitted by the Subcommittee on January 31, 1964, and has taken note of the fact that this report was approved by the Presidents at their meeting on March 2, 1964. It is understood that copies of this report have been furnished to all the Reserve Banks.

The Board accepts the Subcommittee's report as satisfying the purposes of its request of July 26, 1963.

It is believed that the "Recommended General Standards," in part I provide fundamental guidelines that should be followed by each Reserve Bank in the handling of securities received for safekeeping. Parts II and III are commended to every Bank for the useful information set forth therein.

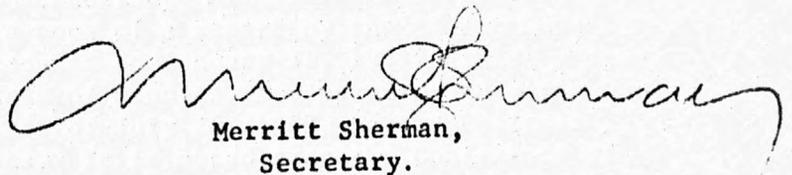
The applicability of every procedural step outlined in part II may not be practicable at each Reserve Bank, but the Board believes they are, nevertheless, worthy of serious consideration and implementation to the extent feasible.

Part III of the report discusses the rotation of vault custodians. The word "rotation" in this context means something different than the temporary relief of a custodian for short periods of time. Rather, it contemplates different pairings of individuals who

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compose a team of joint custodians, such changes in pairings to occur at periodic intervals, usually at the conclusion of a vault audit. The Subcommittee members, in pursuing their studies, found that certain Reserve Banks felt that the reassignment of custodians was impracticable, especially in the smaller offices, and that there were thought to be certain advantages of efficiency in fairly long tenures in the custodian's position. The Subcommittee, therefore, simply reported the various attitudes on the matter and reached no conclusion. While the Board is sympathetic to the practical aspects of the problem, it believes that the possibilities of periodic transfers of custodians, either within the Vault Custody Department or interdepartmentally, should have careful study by all the Banks.

Very truly yours,



Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 8
5/13/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 20, 1964.

Mr. Alfred Hayes, Chairman,
Conference of Presidents,
c/o Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Hayes:

The Board wishes to acknowledge Mr. Timlen's letter of April 16, 1964, transmitting a copy of a report by the Ad Hoc Subcommittee on Safekeeping Procedures on January 31, 1964. This report was prepared on the basis of studies made pursuant to a request by the Board in its letter of July 26, 1963, to the Chairman of the Conference of Presidents. It is noted that the Conference of Presidents approved the report of the Ad Hoc Subcommittee at its meeting of March 2, 1964.

The Board accepts the report as satisfying the request made in its letter of July 26, 1963, and thanks the Conference of Presidents for its cooperation.

As the Presidents are aware, the Board's request for the study of securities safekeeping procedures was prompted in part by the recommendations of a Special Subcommittee of the House Committee on Banking and Currency that conducted a study of the apparent inadvertent disappearance of certain securities at the San Francisco Reserve Bank in 1962. An excerpt from the report of the Special Subcommittee is attached.

Although the Special Subcommittee's interest was primarily addressed to procedures involved in the custody of securities, the attached recommendation from its report is general in nature and not limited merely to the securities safekeeping function.

Therefore, with the report of the Ad Hoc Subcommittee on Safekeeping Procedures as background, the Board would like to have the Conference of Presidents proceed further with the development of control standards that would tend to assure the safe custody of negotiable items of value of all types while they are in the possession of the Reserve Banks. In this context, there come to mind

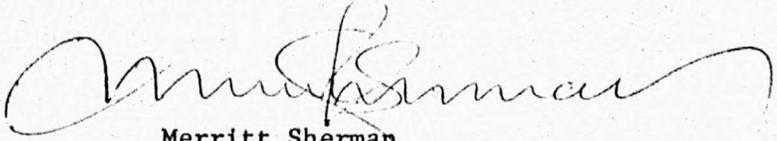
Mr. Alfred Hayes

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particularly the cash, fiscal agency (Government Bond), and noncash collection functions. The currency verification units need not be included because they are already operating under uniform standards prescribed in the Treasury Department's regulations.

Although the Board recognizes that it may not be practicable to have completely uniform procedures for the respective functions mentioned above, it is nevertheless hoped that certain standards of general applicability may be established, and that in due course other particular practices may be developed and disseminated throughout the System for the benefit of all Reserve Banks.

Very truly yours,



Merritt Sherman,
Secretary.

Attachment

cc: Mr. Timlen

EXCERPT FROM PAGE 26 OF REPORT DATED MAY 29, 1963 (HOUSE REPORT NO. 354)
OF SPECIAL SUBCOMMITTEE OF HOUSE BANKING AND CURRENCY COMMITTEE,
REGARDING APPARENT INADVERTENT DISAPPEARANCE OF CERTAIN SECURITIES
AT FEDERAL RESERVE BANK OF SAN FRANCISCO

More central direction

Beyond these obvious considerations is the more pervasive need for direction from the Board of Governors. In the relatively limited management category of securities custodial practices that came into focus during this investigation, we find much diversity in practice among the 12 banks and their branches. For example, some use envelopes for storing securities; others do not. Some use perforated envelopes. In one case, the face of discarded envelopes is kept permanently as a record. In other instances, an officer or trusted employee must check any security transfer.

Under the present mode of operation, the Examining Division of the Board of Governors does not have general clearance authority or control over the regulatory practices followed in the 12 banks and their branches. It has no general manual for use throughout the System. Operating procedure is determined locally. As a result, managerial personnel at the several banks do not have the benefit of the knowledge and experience of their counterparts in the others. In our view, coordination of management practices is an obvious and desirable function for the Board to perform. It should be their job to promulgate written administrative standards to guide the district banks.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

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Item No. 9
5/13/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 20, 1964.

Mr. Alfred Hayes, President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Hayes:

This will acknowledge your letter of April 10, 1964, commenting on your Bank's procedures for the safekeeping of securities in the light of item 8, Part I, "Recommended General Standards," in the report of the Ad Hoc Subcommittee on Safekeeping Procedures of the Conference of Presidents, dated January 31, 1964. The Board had previously noted the reservation with respect thereto expressed by you, as recorded in the minutes of the Conference of Presidents of March 2, 1964, and appreciates having the additional details supplied by your letter.

As you may have noted in a separate letter of this date, the Board favorably received the report of the Ad Hoc Subcommittee on Safekeeping Procedures and endorsed Part I for adoption by all Reserve Banks, with Parts II and III commended for the serious attention of each Bank insofar as applicable to its operations.

Your comments have been referred to the Board's Division of Examinations, and it is understood that in the course of the next regular examination of your Bank, the field examining staff will appraise the safekeeping procedures in effect and reach a conclusion as to whether they may be regarded as meeting the intent of the standards recommended by the Ad Hoc Subcommittee, including item 8, Part I, of the Subcommittee's report.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.