R609

Minutes for January 5, 1965

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 Tuesday, January 5, 1965. 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. Mitchell
Mr. Daane

Mr. Sherman, Secretary
Mr. Kenyon, 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. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research and Statistics
Mr. Farrell, Director, Division of Bank Operations
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. Hooff, Assistant General Counsel
Mr. Holland, Associate Director, Division of Research and Statistics
Mr. Sammons, Adviser, Division of International Finance
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Smith, Assistant Director, Division of Examinations
Mr. Forrestal, Attorney, Legal Division
Mr. Maurer, Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on January 4, 1965, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

First National Bank of Chicago (Item No. 1). Subject to an editorial change that was agreed upon, unanimous approval was given to a proposed letter to The First National Bank of Chicago, Chicago, Illinois, authorizing the establishment of a branch at 8-10 Mansion House Place, London, England, in addition to the branch previously approved by the Board at 38 Walbrook. A copy of the approved letter is attached as Item No. 1.

Mr. Sammons withdrew from the meeting at this point.

Maximum interest rate on certain deposits. Counsel for a national bank in Springfield, Virginia, has raised the question whether interest could be paid at a rate of 4-1/2 per cent on deposits of an individual where the deposit contract provided that the depositor was required to give written notice of 90 days or more prior to any withdrawal. This question was discussed in a memorandum from Mr. Hackley dated December 28, 1964, which had been distributed. The inquirer urged that deposits such as those in question would constitute "time deposits, open account" and that the proposed 4-1/2 per cent interest rate therefore would be permissible.

Mr. Hackley's memorandum pointed out that the definition of "time deposits, open account" in section 217.1 of Regulation Q, Payment of Interest on Deposits, includes any deposit, other than a time certificate of deposit or a savings deposit, with respect to which there is in force a written contract under which the deposit may not be withdrawn except after not less than 30 days' written notice. However, the same section also states that "saving deposits" include deposits of individuals (as well as eligible organizations) with respect to which the depositor "is required, or may at any time be required" to give not less than 30 days' written notice of withdrawal. Consequently, if the Regulation were read literally, deposits of an individual as to which 90 days' written notice of withdrawal is required by the deposit contract would be excluded from classification as "time deposits, open account." They would have to be classified as savings deposits and would therefore be subject to a maximum interest rate of 4 per cent. On the theory that a discrimination of this kind against individuals was not intended by Regulation Q, Mr. Hackley's memorandum suggested several ways in which the problem might be resolved, either with or without an amendment to the Regulation.

After Mr. Hackley had reviewed the nature of the problem and outlined the several suggested alternative solutions, there ensued a general discussion concerning the use of time deposits,

open account, the effect of alternative actions that might be taken by the Board in light of the question that had been raised, interpretations that might be placed upon announcement of an amendment to Regulation Q at this time, and possible results of such an announcement in terms of banking practices. During the course of this discussion an additional possible alternative amendment to Regulation Q was proposed by Governor Robertson.

There was general agreement that the Board should take no final action at this time on the matter presented in Mr. Hackley's memorandum. Instead, it was understood that a revised version of the memorandum presenting the nature of the problem and possible courses of action would be sent to the Federal Deposit Insurance Corporation as a basis for inter-agency staff discussion, that copies of the revised memorandum also would be sent to the Comptroller of the Currency and the Chairman of the Home Loan Bank Board to ascertain whether they would have any comments, and that the matter would then be given further consideration by the Board.

Messrs. Hexter, O'Connell, Shay, Hooff, and Forrestal then withdrew from the meeting.

Trust examination report form. Pursuant to the recommendation contained in a distributed memorandum from the Division of Examinations dated December 24, 1964, unanimous approval was given to a proposed revised trust department examination report form and

a revised trust report manual for use by the Federal Reserve Banks in reporting the results of examination of the trust departments of State member banks. It was understood that when supplies of the new form were available, a letter would be sent to the Reserve Banks transmitting the revised report form and trust report manual and authorizing their use.

Messrs. Young, Leavitt, and Maurer then withdrew from the meeting.

Press release on Federal Reserve Bank earnings (Item No. 2). Pursuant to previous discussion of the Board, most recently on December 23, 1964, there had been distributed a draft of statement to be released to the press later today on Federal Reserve Bank earnings, expenses, and dividends during the year 1964, which release would also report the conclusion of the Board that the surplus of the Reserve Banks should be maintained at the level of paid-in capital rather than subscribed capital. The release would note that this decision would add $524 million to the amount paid by the Federal Reserve into the Treasury in 1965.

After a discussion during which certain changes in the language of the last paragraph were agreed upon, unanimous approval was given to the issuance of a statement in the form attached as Item No. 2.

Messrs. Brill and Daniels then withdrew from the meeting.

Examination of Chicago Reserve Bank. There had been circulated to the Board the report of examination of the Federal Reserve Bank of Chicago made by the Board's examining staff as of October 2, 1964, and at the Board's request Mr. Smith reviewed information disclosed by the examination. After discussion it was agreed that there were no matters requiring Board action at this time, except that Governor Mitchell was to seek additional information concerning the circumstances surrounding the recent borrowing record of the Bank of the Commonwealth, Detroit, Michigan.

Transportation of new Federal Reserve notes. Mr. Farrell reported briefly on initial deliveries to Federal Reserve Banks of new Federal Reserve notes under the contract recently executed with Brink's Incorporated, his remarks indicating that the operations had proceeded satisfactorily.

The meeting then adjourned.

Secretary's Note: A letter was sent today to the Federal Reserve Bank of Kansas City approving a special Grade 16 maximum of $19,500 in the salary structure applicable to the head office of the Bank, effective January 1, 1965. The letter, a copy of which is attached as Item No. 3, was sent under authority of the Board's action of November 30, 1964.

Merritt Sherman
Secretary

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

Item No. 1
1/5/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 5, 1965.

The First National Bank of Chicago,
Chicago, Illinois.

Gentlemen:

Reference is made to your letter of December 11, 1964 regarding the Board's letter of September 11, 1964 granting permission to The First National Bank of Chicago, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish a branch in London, England, to be located at 38 Walbrook, London E.C. 4.

It was understood that all personnel of the London Branch having contact with the public would be at the 38 Walbrook location, but that operating employees, including the foreign exchange traders, would be housed in a nearby office building. However, your letter stated that subsequent to receipt of the Board's permission you have rented office space on the fourth floor of a new building at 8-10 Mansion House Place, about 300 feet from the Walbrook address. It is noted that some public contact in the auxiliary space is necessary as messengers bearing documentary credits for negotiation, bills for collection, etc. will go directly to the Mansion House address and that other public contacts will be essential to efficient operation.

You stated that, although you are actively continuing a search for a single location, the outlook is indefinite, and you have advised the Board of the circumstances in order to obtain any special or additional permission required to engage occasionally in what might be construed as public contact at the Mansion House address.

The Board of Governors grants its permission to The First National Bank of Chicago, Chicago, Illinois, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish a branch in London, England, to be located at 8-10 Mansion House Place, London, E.C. 4, and to operate and maintain such branch subject to the provisions of such Section and of Regulation M.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Item No. 2
1/5/65

For immediate release

January 5, 1965.

Preliminary figures received from the Federal Reserve Banks indicate that during the year 1964 their earnings amounted to $1,344 million, an increase of $193 million compared with 1963. Earnings of $1,324 million on U. S. Government securities were $186 million more than in 1963, reflecting an increase in average holdings and a higher average yield. Earnings from discounts and advances were $10 million, compared with $9 million in 1963; and earnings on foreign currencies amounted to $6 million, compared with $2 million in 1963.

Expenses in 1964 amounted to $197 million, $10 million more than in 1963, leaving net earnings of $1,147 million before dividends and payments to the United States Treasury, compared with $964 million in 1963.

Payments of statutory dividends to member banks amounted to $31 million, up $2 million from 1963. Payments to the U. S. Treasury as interest on Federal Reserve notes for the year 1964 will total $1,582 million. These payments consist of all net earnings after dividends plus amounts necessary to reduce surplus to the level of paid-in capital, instead of subscribed capital, as heretofore.

Since 1959, the Federal Reserve System has been paying into the United States Treasury as interest on Federal Reserve notes all net earnings of the Federal Reserve Banks after payment of statutory

dividends and amounts set aside to maintain the surplus accounts of the twelve Reserve Banks at a level equal to the amount of capital subscribed by their member banks.

Member banks are required to subscribe to Federal Reserve Bank capital stock in an amount equal to six per cent of their own capital and surplus, and to pay in one-half of the subscribed amount. Because of the growth in the capital structure of the 6,200 member banks, in reflection of the growth of the economy, the subscribed capital of the Reserve Banks at the end of 1964 had reached $1,048 million, an increase of nearly $300 million since 1959.

Accordingly, the Board has concluded that the growth in the capital and accumulated surplus of the several Reserve Banks, as well as in their net earnings (which rose from $840 million in 1959 to $1,147 million in 1964), warrants reducing the surplus of the Reserve Banks to the level of paid-in capital instead of subscribed capital as has heretofore been the case. This decision will add $524 million to the amount paid into the Treasury in 1965.

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

Item No. 3
1/5/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 5, 1965.

CONFIDENTIAL (FR)

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

Dear Mr. Clay:

The Board of Governors has approved a special Grade 16 maximum of $19,500 in the salary structure applicable to the Head Office of the Federal Reserve Bank of Kansas City, effective January 1, 1965, as requested in your letter of December 23, 1964.

It has been noted that, after reviewing results of labor market surveys in the four offices of the District, your Board of Directors decided to continue your present salary structures for all offices.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.