

Minutes for September 29, 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	<u><i>m</i></u>
Gov. Robertson	<u><i>R</i></u>
Gov. Balderston	<u><i>CCB</i></u>
Gov. Shepardson	<u><i>SPS</i></u>
Gov. Mitchell	<u><i>M</i></u>
Gov. Daane	<u><i>DD</i></u>
Gov. Maisel	<u><i>Bgm</i></u>

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, September 29, 1965. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman 1/
 Mr. Balderston, Vice Chairman
 Mr. Robertson
 Mr. Shepardson
 Mr. Mitchell
 Mr. Maisel

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Young, Adviser to the Board and Director, Division of International Finance
 Mr. Molony, Assistant to the Board
 Mr. Cardon, Legislative Counsel
 Mr. Hackley, General Counsel
 Mr. Farrell, Director, Division of Bank Operations
 Mr. Johnson, Director, Division of Personnel Administration
 Mr. O'Connell, Assistant General Counsel
 Mr. Shay, Assistant General Counsel
 Mr. Daniels, Assistant Director, Division of Bank Operations
 Mr. Goodman, Assistant Director, Division of Examinations
 Mr. Sprecher, Assistant Director, Division of Personnel Administration
 Miss Hart, Senior Attorney, Legal Division
 Messrs. Egertson and McClintock, Supervisory Review Examiners, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on September 27, 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 the Bank.

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

1/ Withdrew from meeting at point indicated in minutes.

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	<u>Item No.</u>
Letter to United California Bank, Los Angeles, California, approving an extension of time to establish a branch in Torrance.	1
Letter to Security National Bank of Omaha, Omaha, Nebraska, granting its request for permission to maintain reduced reserves.	2
Letter to the Bureau of the Budget reporting on H. R. 4750, an enrolled bill that would extend the interest equalization tax until July 31, 1967.	3

Commingled investment account (Item No. 4). There had been distributed memoranda from the Legal Division dated September 17 and September 27, 1965, regarding whether an interpretation should be published based on the Board's letter of July 22, 1965, to counsel for First National City Bank of New York in which the Board stated that the prohibition of section 32 of the Banking Act of 1933 would not prevent interlocking relationships between the bank and its proposed commingled investment account. The Legal Division recommended publication of such an interpretation, in form submitted with the September 17 memorandum, in light of the fact that the matter was becoming one of general interest and the prospect that other banks might submit similar requests for interpretations once First National City Bank's proposed commingled investment account had been established. The Legal Division suggested, however, that the interpretation make no reference to the question of the applicability to the proposal of section 21 of the Banking Act of 1933. (In its July 22 letter the Board

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had called attention to this section, stating that the section was a criminal statute, that the Board had followed the policy of not expressing views as to its meaning, and that the Board therefore took no position with respect to whether the section might be held applicable to the establishment and operation of the proposed commingled investment account. The Board expressed the view, however, that there was sufficient question concerning section 21 so that the bank might wish to consult the Department of Justice. The bank subsequently had consulted the Justice Department and had furnished copies of the resulting correspondence for the Board's information.)

In discussion of the matter, several alternative possibilities were explored. One of these alternatives was to refrain from issuing any interpretation at the present time, particularly in view of several currently controversial aspects of the subject matter, and to wait until the next request for interpretation was received, at which time the Board might want to reconsider the whole subject and issue a somewhat different type of opinion.

Another possibility would be simply to make copies of the Board's letter to First National City Bank available to parties who inquired, with names excised from the letter. A variant would be to publish the letter, again with names excised.

In view of the indications of interest in the Board's opinion that had already been received and in view of a feeling that it would be

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advisable to make the Board's opinion generally available on an impartial basis, it developed to be the consensus that the opinion should be published. It was also the consensus that a form of interpretation such as had typically been issued by the Board would be preferable to publishing an excised version of the July 22 letter, it being understood, however, that the interpretation would follow the terms of the letter except in minor editorial respects.

The remaining question was whether the published interpretation should contain any reference to section 21 of the Banking Act of 1933. For the Board's consideration, Mr. Shay distributed a draft of paragraph that might be added to the interpretation if the Board desired to have a reference to section 21 included. It developed to be the consensus that such a paragraph should be included.

Accordingly, unanimous approval was given to the publication in the Federal Register and in the Federal Reserve Bulletin of an interpretation in the form attached as Item No. 4.

At this point Chairman Martin withdrew from the meeting.

Pending bank merger legislation. There had been distributed for the Board's information copies of a letter dated September 24, 1965, from the Attorney General to the Chairman of the House Banking and Currency Committee discussing the views of the Department of Justice, the Treasury Department, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation on various proposals with respect

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to bank mergers presently pending before the Banking and Currency Committee.

It was noted that the Board had received from Committee Chairman Patman a request for a report on H.R. 11011, a bank merger bill that had been offered as a compromise to S. 1698, the bill passed by the Senate. It was stated that the staff was presently engaged in preparing a draft of report for the Board's consideration. The staff indicated that any guidance from the members of the Board would be appreciated in drafting the report. However, the Board members felt that they would be in better position to furnish such guidance after having had the benefit of a memorandum from the Legal Division analyzing H.R. 11011 in comparison with S. 1698 and H.R. 11033, another bank merger bill that had been introduced. It was stated that a memorandum containing such an analysis was in course of preparation and that it would be distributed to the Board within the next few days.

Messrs. Young, Cardon, Shay, and Daniels and Miss Hart then withdrew from the meeting.

Salary structures of Atlanta Bank (Item No. 5). There had been distributed a memorandum from the Division of Personnel Administration dated September 23, 1965, relating to a request by the Federal Reserve Bank of Atlanta for approval of certain changes in the salary structures applicable to employees of the head office and branches effective August 1, 1965, including a special grade 16 maximum of \$19,500. Approval, effective as of the date of the Board's action, was recommended by the Division.

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Mr. Johnson expressed the view that the proposed salary structure changes were warranted. However, he also expressed the view that it would be desirable for a representative of the Division of Personnel Administration, at the time of the next regular visit to the Atlanta Bank, to review the Bank's salary survey practices and procedures with the officers concerned because of an indication of some need for improvement in the accuracy of the surveys and in their interpretation by the Bank. The most recent survey appeared to show a need for much higher salaries than were actually proposed by the Reserve Bank, which suggested that the Bank was having difficulty in summarizing and analyzing its survey data.

After discussion based on Mr. Johnson's comments, the proposed revised salary structures for the head office and branches were approved unanimously, effective immediately. A copy of the letter sent to the Atlanta Bank pursuant to this action is attached as Item No. 5.

Salary structures of Kansas City Bank (Item No. 6). There had been distributed a memorandum from the Division of Personnel Administration dated September 22, 1965, relating to a request by the Federal Reserve Bank of Kansas City for approval of certain proposed changes in the salary structures applicable to employees of the head office and branches effective September 1, 1965.

The Division's memorandum referred to circumstances over a period of years indicating that the Kansas City Bank had regularly requested

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higher ranges in the upper grades than were justified, thus making it necessary for the Board to suggest downward revisions more in line with a normal relationship to salary rates in the respective communities in the lower grades and more comparable in the upper grades to the ranges of the structures at other Reserve Banks. Currently, Kansas City was proposing a revision in the present structure at each of its four offices, and again it was recommending percentage increases in the upper grades at the head office that did not appear justified. The extrapolation from grade 10 (the highest grade of jobs included in the Bank's survey) to grade 16 was abnormally sloped; and the maximum of grade 16 in the proposed head office structure (\$17,225) would place Kansas City considerably higher than the maximum of any Reserve Bank except New York. (The Bank had previously obtained approval for a special grade 16 maximum of \$19,500 to assist in recruiting and retaining employees of desired quality in professional level positions.)

The situation had been discussed with representatives of the Reserve Bank and a suggestion had been made that a portion of the proposed head office structure be approved, with a revision of the remainder of the structure. The Reserve Bank was receptive to approval of the proposed ranges for grades 1 through 10 and was willing to give consideration to a constant increase of 5.3 per cent for grades 11 through 16.

The Division recommended that the proposed head office salary structure be approved for grades 1 through 10, that the proposed branch

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structures--although appearing somewhat high in the top three grades--be approved (there were no incumbents in those grades), and that the Reserve Bank be advised that the Board was prepared to approve adjustments in grades 11 through 16 of the head office structure on the basis of a constant 5.3 per cent increase over present mid-points, if approved by the directors of the Reserve Bank. The letter suggested for transmission to the Reserve Bank would also contain language reflecting the view that the pattern followed by the Kansas City Bank in continually requesting higher ranges in the upper grades than were justified, thus requiring negotiation of more realistic ranges, should be discontinued.

After discussion of the circumstances described in the Division's memorandum and consideration of alternative possibilities, a suggestion was made that the proposed ranges for grades 1 through 11 at the head office be approved, along with the proposed branch structures, but that approval of ranges for grades 12 through 16 at the head office be withheld pending discussion of the situation with President Clay by the Board's Committee on Organization, Compensation, and Building Plans.

There being agreement with this suggestion, unanimous approval was given to a letter to the Kansas City Reserve Bank in the form attached as Item No. 6.

Request of American Bankers Association. Mr. Johnson reported that the American Bankers Association was preparing a report, for distribution to commercial bankers in various midwestern States, regarding

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the salaries of the principal bank supervisory personnel in those States. For this purpose the Association had asked for information on the salaries of officers in charge of bank examinations in the Reserve Banks, including the Vice President, Assistant Vice President, and Chief Examiner. A similar request had been made of the Federal Deposit Insurance Corporation, which it was understood had agreed to furnish only the range between the highest and lowest salaries paid to its regional supervising examiners throughout the country.

After discussion, the Division of Personnel Administration was authorized to furnish the modal salary of the Vice Presidents in charge of examinations at the Federal Reserve Banks.

Farmers and Merchants Bank of Long Beach (Items 7 and 8). There had been distributed a memorandum from the Legal Division dated September 28, 1965, concerning a request by United States Attorney Manuel L. Real, Los Angeles, California, for the issuance of a warning pursuant to section 30 of the Banking Act of 1933 to Mr. Kenneth G. Walker, Executive Vice President of the Farmers and Merchants Bank of Long Beach, Long Beach, California, regarding certain occurrences in that bank between 1958 and 1961 in which Mr. Walker and others were involved. For reasons stated it was the recommendation of Mr. O'Connell, who had just returned from conferences at the Federal Reserve Bank of San Francisco, that the Board decline to issue the requested warning.

Mr. Real had also asked that the Board authorize for use in a pending criminal case--involving two principal officers of and counsel

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for Farmers and Merchants Bank--certain documents the originals of which were in the possession of the San Francisco Reserve Bank. It was Mr. O'Connell's recommendation that these documents be made available to Mr. Real subject to certain understandings, principal among which were an understanding that the Reserve Bank would effect proper excision or blocking to prevent unwarranted disclosures and an understanding that the excised or blocked copies would be furnished only in response to subpoena.

Submitted with the Legal Division's memorandum was a draft of letter to the Department of Justice reflecting Mr. O'Connell's recommendations.

Following a statement by Mr. O'Connell in support of the distributed memorandum, Governor Robertson inquired whether anything would be gained by insisting upon the issuance of a subpoena. He noted that such a requirement might make it more difficult to obtain agreement on the proposed excising and blocking. Mr. O'Connell replied that this point had occurred to him. However, Mr. Walker had sought to obtain various documents pertaining to this matter and his requests had been denied by the Board. In these circumstances, Mr. O'Connell said he would be reluctant to have it known that the Federal Reserve had turned over similar documents to the United States Attorney except under subpoena.

Unanimous approval then was given to the letter to the Department of Justice of which a copy is attached as Item No. 7, with the

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understanding that a copy would be furnished for transmittal to Mr. Real. Attached as Item No. 8 is a copy of the letter sent to the Federal Reserve Bank of San Francisco.

All members of the staff then withdrew except Messrs. Sherman, Kenyon, Hackley, and Farrell. By invitation of the Board, President Swan of the Federal Reserve Bank of San Francisco joined the meeting at this point.

Coin matter. Governor Balderston referred to a telephone conversation that he and President Swan had had yesterday with Assistant Secretary of the Treasury Wallace concerning a proposal by Mr. Wallace that a letter be sent to the presidents of all commercial banks concerning the coin situation. Governor Balderston then distributed copies of the proposed letter, part of which was devoted to supplying information about the gains that had been achieved in coin production and the extent to which output capacity was being further increased. The letter would also describe plans being made to meet the expected heavy demands for coin this fall and would urge the commercial banks to continue their cooperation with the Treasury Department in several ways, such as by not engaging in the sale of coins at a premium, not making loans against coin collateral except in the case of bona fide coin collections, not maintaining coin inventories in excess of actual needs, and not making coins available in quantity except for use in commercial transactions. In order to help the Treasury in planning future levels of coin production,

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the addressees of the letter would be asked to complete and return a questionnaire providing information on present coin inventories and on desired inventories for October 15, 1965, January 15, 1966, and April 15, 1966.

Governor Balderston stated that he and President Swan were going to meet with Mr. Wallace today for further discussion. He observed that it was not clear whether Mr. Wallace contemplated that the letter would be sent to the commercial banks over Reserve Bank or Treasury signature and that it was not clear whether the questionnaires were to be returned to the Reserve Banks or to the Treasury.

It developed from the ensuing discussion that there were no strong views among the members of the Board as to the desirability of sending such a letter to the banks. However, if the Treasury felt that such a letter should be sent, it was the view of the Board that it should go forward as a Treasury letter. At the same time it was thought that there was something to be said for transmitting any such letter to the banks with a covering letter over the signature of the respective Reserve Bank Presidents, thus maintaining the traditional linkage between the Reserve Banks and the commercial banks in the distribution of coin. It was understood that Governor Balderston and President Swan would discuss the matter further with Mr. Wallace along these lines, at the same time passing on to Mr. Wallace various suggestions that he might want to consider concerning the content of the letter and the format of the questionnaire.

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The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

Appointments

Gayle Frances Jamison as Records Clerk, Office of the Secretary, with basic annual salary at the rate of \$4,480, effective the date of entrance upon duty.

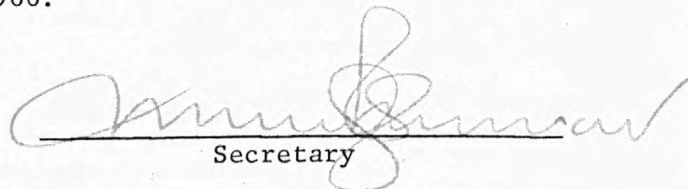
Cheryl Patricia Jenkins as Statistical Clerk, Division of Research and Statistics, with basic annual salary at the rate of \$4,140, effective the date of entrance upon duty.

Salary increase

Peggy Jo H. Powles, Secretary, Office of the Controller, from \$5,330 to \$5,690 per annum, effective October 10, 1965.

Permission to engage in outside activity

Mack R. Rowe, Chief, Economic Graphics Section, Division of Data Processing, to deliver certain lectures at Concordia State Teachers College, Seward, Nebraska, in June 1966.


Secretary

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

Item No. 1
9/29/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 29, 1965



Board of Directors,
United California Bank,
Los Angeles, California.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to October 1, 1966, the time within which United California Bank, Los Angeles, California, may establish a branch in the vicinity of Hawthorne Avenue between Carson Street and Sepulveda Boulevard, Torrance, California

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2
9/29/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 29, 1965

Board of Directors,
Security National Bank of Omaha,
Omaha, Nebraska.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of Kansas City, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Security National Bank of Omaha to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective with the first biweekly reserve computation period beginning after the date of this letter.

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

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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Item No. 3
9/29/65



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

September 29, 1965

Mr. Phillip S. Hughes,
Assistant Director for
Legislative Reference,
Bureau of the Budget,
Washington, D. C. 20503

Dear Mr. Hughes:

In response to your communication of September 28, 1965, the Board recommends that the President approve the enrolled bill, H. R. 4750, which would extend the interest equalization tax until July 31, 1967.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

TITLE 12 - BANKS AND BANKING

Item No. 4
9/29/65

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. R]

PART 218 - RELATIONS WITH DEALERS IN SECURITIES
UNDER SECTION 32, BANKING ACT OF 1933

Bank Commingled Investment Account

§ 218.111 Interlocking relationships between bank and its commingled investment account.

(a) The Board of Governors was asked recently whether the establishment of a proposed "Commingled Investment Account" ("Account") by a national bank would involve a violation of section 32 of the Banking Act of 1933 in view of the interlocking relationships that would exist between the bank and Account.

(b) From the information submitted, it was understood that Account would comprise a commingled fund, to be operated under the effective control of the bank, for the collective investment of sums of money that might otherwise be handled individually by the bank as managing agent. It was understood further that the Comptroller of the Currency had taken the position that Account would be an eligible operation for a national bank under his Regulation 9, "Fiduciary Powers of National Banks and Collective Investment Funds" (12 CFR 9). The bank had advised the Board that the Securities and Exchange Commission was of the view that Account would be a "registered investment company" within the meaning of the Investment Company Act of 1940, and that participating interests in Account would be "securities" subject to the registration requirements of the Securities Act of 1933.

(c) The information submitted showed also that the minimum individual participation that would be permitted in Account would be \$10,000, while the maximum acceptable individual investment would be half a million dollars; that there would be no "load" or payment by customers for the privilege of investing in Account; and that: "The availability of the Commingled Account would not be given publicity by the Bank except in connection with the promotion of its fiduciary services in general and the Bank would not advertise or publicize the Commingled Account as such. Participations in the Commingled Account are to be made available only on the premises of the Bank (including its branches), or to persons who are already customers of the Bank in other connections, or in response to unsolicited requests."

(d) Such information indicated further that participations would be received by the bank as agent, under a broad authorization signed by the customer, substantially equivalent to the power of attorney under which customers currently deposit their funds for individual investment, and that the participations would not be received "in trust".

(e) The Board understood that Account would be required to comply with certain requirements of the Federal securities laws not applicable to an ordinary common trust fund operated by a bank. In particular, supervision of Account would be in the hands of a committee to be initially appointed by the bank, but subsequently elected by participants having a majority of the units of participation in Account. At least one member of the committee would be entirely independent of

the bank, but the remaining members would be officers in the trust department of the bank.

(f) The committee would make a management agreement with the bank under which the bank would be responsible for managing Account's investments, have custody of its assets, and maintain its books and records. The management agreement would be renewed annually if approved by the committee, including a "majority" of the independent members, or by a vote of participants having a majority of the units of participation. The agreement would be terminable on sixty days' notice by the committee, by such a majority of the participants, or by the bank, and would terminate automatically if assigned by the bank.

(g) It was understood also that the bank would receive as annual compensation for its services one-half of one per cent of Account's average net assets. Account would also pay for its own independent professional services, including legal, auditing, and accounting services, as well as the cost of maintaining its registration and qualification under the Federal securities laws.

(h) Initially, the assets of Account would be divided into units of participation of an arbitrary value, and each customer would be credited with a number of units proportionate to his investment. Subsequently, the assets of Account would be valued at regular intervals, and divided by the number of units outstanding. New investors would receive units at their current value, determined in this way, according to the amount invested. Each customer would receive a receipt evidencing the number of units to which he was entitled. The receipts

themselves would be nontransferable, but it would be possible for a customer to arrange with Account for the transfer of his units to someone else. A customer could terminate his participation at any time and withdraw the current value of his units.

(i) Section 32 of the Banking Act of 1933 provides in relevant part that: "No officer, director, or employee of any corporation or unincorporated association, no partner or employee of any partnership, and no individual, primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities, shall serve [at] the same time as an officer, director, or employee of any member bank. . . ."

(j) The Board concluded, based on its understanding of the proposal and on the general principles that have been developed in respect to the application of section 32, that the bank and Account would constitute a single entity for the purposes of section 32, at least so long as the operation of Account conformed to the representations made by the bank and outlined herein. Accordingly, the Board said that section 32 would not forbid officers of the bank to serve on Account's committee, since Account would be regarded as nothing more than an arm or department of the bank.

(k) In conclusion, the Board called attention to section 21 of the Banking Act of 1933 which, briefly, forbids a securities firm or organization to engage in the business of receiving deposits, subject to certain exceptions. However, since section 21 is a criminal

statute, the Board has followed the policy of not expressing views as to its meaning. (1934 Federal Reserve Bulletin 41, 543) The Board, therefore, expressed no position with respect to whether the section might be held applicable to the establishment and operation of the proposed "Commingled Investment Account".

(12 U.S.C. 248(i). Interprets or applies 12 U.S.C. 78.)

Dated at Washington, D. C., this 29th day of September, 1965.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(SEAL)

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 5
9/29/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 1, 1965.



CONFIDENTIAL (FR)

Mr. Harold T. Patterson, President,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia. 30303.

Dear Mr. Patterson:

As requested in your letter of July 8, 1965, the Board of Governors approves the following minimum and maximum salaries for the respective grades of the employees' salary structures at the Federal Reserve Bank of Atlanta and branches, effective immediately.

Grade	Atlanta- Birmingham		Jacksonville- Nashville		New Orleans	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
1	\$2,800	\$3,800	\$2,600	\$3,400	\$2,800	\$3,800
2	2,900	4,000	2,600	3,500	2,900	4,000
3	3,100	4,200	2,700	3,600	3,100	4,200
4	3,300	4,500	2,900	3,900	3,300	4,500
5	3,600	4,900	3,200	4,300	3,500	4,700
6	4,000	5,400	3,600	4,800	3,800	5,100
7	4,400	5,900	4,000	5,400	4,200	5,600
8	4,900	6,600	4,400	6,000	4,700	6,300
9	5,500	7,400	4,800	6,500	5,200	7,000
10	6,100	8,300	5,300	7,200	5,700	7,700
11	6,800	9,200	5,800	7,900	6,300	8,500
12	7,500	10,200	6,400	8,600	6,900	9,300
13	8,400	11,300	7,000	9,500	7,700	10,500
14	9,300	12,500	7,700	10,400	8,600	11,600
15	10,200	13,800	8,400	11,300	9,500	12,900
16	11,300	15,300	9,200	12,400	10,600	14,400

The Board approves the payment of salaries within the limits specified for the grades in which their respective positions are classified. All employees whose salaries are below the minimum of their grades as a result of these structure increases should be brought within appropriate ranges not later than January 1, 1966.

The Board also approved your request for a special Grade 16 maximum of \$19,500, where required to recruit and retain employees of the desired quality in professional level positions.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 6
9/29/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 30, 1965.

CONFIDENTIAL (FR)

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

Dear Mr. Clay:

Reference is made to your letter of August 13, 1965, requesting approval of the Board of Governors for upward adjustments in salary structures applicable to employees at the Head Office and branches, effective September 1, 1965.

The Board of Governors has approved the proposed minimums and maximums for grades 1 through 11 of the Head Office structure and grades 1 through 16 for the branch structures at Denver, Oklahoma City, and Omaha, as follows:

Grade	Kansas City		Denver		Oklahoma City		Omaha	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
1	\$2,600	\$3,055	\$2,600	\$3,380	\$2,600	\$3,159	\$2,600	\$3,250
2	2,600	3,458	2,782	3,757	2,600	3,497	2,678	3,614
3	2,912	3,926	3,094	4,173	2,886	3,900	2,964	4,004
4	3,289	4,446	3,419	4,615	3,211	4,342	3,289	4,446
5	3,705	5,005	3,796	5,135	3,562	4,810	3,653	4,940
6	4,173	5,629	4,225	5,707	3,965	5,356	4,056	5,486
7	4,680	6,318	4,680	6,318	4,394	5,928	4,498	6,084
8	5,265	7,111	5,200	7,033	4,888	6,591	4,992	6,747
9	5,902	7,982	5,785	7,813	5,421	7,319	5,551	7,488
10	6,604	8,905	6,409	8,645	6,019	8,125	6,149	8,307
11	7,371	9,958	7,111	9,594	6,656	8,996	6,825	9,217
12			7,878	10,634	7,397	9,984	7,553	10,205
13			8,723	11,778	8,203	11,076	8,385	11,323
14			9,685	13,078	9,113	12,298	9,308	12,558
15			10,764	14,534	10,114	13,650	10,335	13,962
16			11,947	16,133	11,232	15,171	11,479	15,496

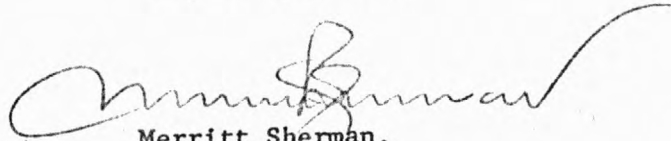
The payment of salaries is authorized within the limits specified for the grade in which the positions of employees are classified. All employees whose salaries are below the minimum of their grades as a result of this structure should be brought within the appropriate ranges by January 1, 1966.

Mr. George H. Clay

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With respect to grades 12 through 16 of the Head Office structure, the Board does not approve the ranges requested, and would appreciate your discussing this with the Committee on Organization, Compensation, and Building Plans at your meeting with that Committee on October 12.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman". The signature is written in dark ink and is positioned above the printed name and title.

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 29, 1965.



The Honorable Fred M. Vinson, Jr.,
Assistant Attorney General,
Criminal Division,
Department of Justice,
Washington, D. C. 20530

Attention Mr. Nathaniel E. Kossack,
Chief, Fraud Section.

Re: United States v. Kenneth G. Walker, et al.
D. of J. Ref. FHV:CJC, 29-12-1349

Dear Mr. Vinson:

This acknowledges your letter of September 21, 1965, referring to a letter dated September 7, 1965, from United States Attorney Manuel L. Real, Los Angeles, California, to Mr. Eliot Swan, President, Federal Reserve Bank of San Francisco, wherein Mr. Real requests the Board to consider the issuance of a warning pursuant to Section 30 of the Banking Act of 1933 (12 U.S.C. § 77) to Mr. Kenneth G. Walker, Executive Vice President, Farmers and Merchants Bank of Long Beach, Long Beach, California, regarding certain occurrences in that Bank between 1958 and 1961 in which Mr. Walker and others were involved. You ask that the Board consider Mr. Real's request in the interest of achieving unanimity on the part of the Government in regard to Mr. Walker's actions which are the subject of the above criminal case set for trial October 5, 1965.

The Board concurs in your expression of the desirability of achieving unanimity on the part of the Government, to the extent that such is consistent both with prosecution of the Government's case and with the provisions of the statute pursuant to which the Board's action is requested. However, as Mr. Real has been advised by the Federal Reserve Bank of San Francisco, and Mr. Kossack similarly advised on an informal basis by a member of the Board's staff, both the Board and the Federal Reserve Bank believe that a warning under Section 30 of the Banking Act of 1933 would not be appropriately issued in respect to transactions involving Mr. Kenneth G. Walker that occurred between 1958 and 1961. It is our view that a Section 30 warning must be issued in relation to an existing condition or pattern

The Honorable Fred M. Vinson, Jr. -2-

of operation, or to actions taken immediately prior to such warning. It is believed that any unanimity achieved by issuance of a Section 30 warning in respect to the transactions noted by Mr. Real in his letter of September 7 would be achieved at the cost of misuse of a statutorily-directed procedure. This consequence, we are certain, is not one desired by your Department regardless of the interim beneficial results achieved. Accordingly, the Board must decline to issue the warning requested by Mr. Real.

Your attention is directed to an earlier letter from Mr. Real, dated June 10, 1965, addressed to the Federal Reserve Bank of San Francisco, in which Mr. Real asks that the Board's permission be secured for Mr. Real's use of the originals of certain documents specified in his June 10 letter as evidence in the above forthcoming criminal case. In view of the bulk of documents involved in Mr. Real's request, the identification thereof contained in his June 10 letter is incorporated herein by reference.

By letter of this date, the Board is authorizing the Federal Reserve Bank of San Francisco to make available to Mr. Real for his use in the forthcoming case the following documents, under the specific understandings hereinafter stated:

(1) excised Federal Reserve System records and portions of reports of examination of the Farmers and Merchants Bank of Long Beach, identical to and in the form of copies thereof produced before a Federal grand jury of the District Court for the Southern District of California, Los Angeles, on May 22, 1963, pursuant to subpoenas issued for such documents by the grand jury;

(2) documents specifically referred to and enclosed in a letter of October 20, 1964, from Mr. James Ahlf, Chief Examiner, Federal Reserve Bank of San Francisco, to the Federal Bureau of Investigation, attention of Mr. Doyle Kintz; and

(3) documents specifically referred to and enclosed in a letter of December 16, 1964, from Mr. Walter F. Scott, General Counsel, Federal Reserve Bank of San Francisco, to the Federal Bureau of Investigation, attention of Mr. Doyle Kintz.

A review of the documents, the originals of which have been requested by Mr. Real, reflects that in each of the groups of documents included in (2) and (3), supra, there are numerous references to loans on the books of the Farmers and Merchants Bank, apparently unrelated to transactions that are at issue in the pending case, wherein the borrowers' names are given, together with the amounts of their outstanding obligations. In many instances critical comments regarding

The Honorable Fred M. Vinson, Jr. -3-

these loans are made. In view of the lack of apparent relevance as noted, you are advised that the Board is directing the Federal Reserve Bank to effect proper excision or blocking in respect to any document as to which such action is necessary to prevent unwarranted disclosures. Further, in order to avoid permanent excision or blocking, and in some cases virtual destruction of large portions of the originals of the documents sought by Mr. Real, the Reserve Bank is being advised to prepare photographic copies of the documents in question, such copies to be made following the excision or blocking mentioned. Thus, the authorization herein given by the Board contemplates that the Reserve Bank will furnish to United States Attorney Real, in response to a subpoena therefor, photographic copies to be excised or blocked in a manner and to the extent believed necessary to protect against unwarranted disclosures.

In view of the limitations placed upon the authorization herein given, Mr. Real, or a member of his staff, may wish to confer with the Reserve Bank's General Counsel regarding the issuance of a subpoena for the documents in question and concerning their preparation pursuant to the Board's authorization. Inasmuch as the documents mentioned in (1), supra, were furnished in response to subpoena and were appropriately excised at the time of their transmission, such documents apparently need not be the subject either of subpoena or excision at this time. As Mr. Real was advised by letter of September 22, 1965, from President Swan, we are currently undertaking an analysis of the most recent examination of Farmers and Merchants Bank, with a view to formulating conclusions as to any necessary supervisory action or direction in respect to the current condition of that bank.

A copy of this letter is enclosed for your use in transmitting advice of the Board's action to Mr. Real.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 8

9/29/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 29, 1965.



Mr. Eliot J. Swan, President,
Federal Reserve Bank of San Francisco,
San Francisco, California. 94120

Dear Mr. Swan:

This refers to the request now pending before the Board, submitted by United States Attorney Real, Los Angeles, California, and supported by letter of September 21, 1965, by the Assistant Attorney General, Criminal Division, Department of Justice, that the Board issue to Mr. K. G. Walker, Executive Vice President, Farmers and Merchants Bank of Long Beach, a warning under Section 30 of the Banking Act of 1933 in respect to certain transactions occurring within that bank between 1958 and 1961.

Enclosed for your information is a copy of a letter of this date addressed to the Assistant Attorney General of the Department's Criminal Division advising of the Board's conclusion that the issuance of the specific Section 30 warning requested by Mr. Real would not be warranted.

You will note that the Board's letter also deals with Mr. Real's request for authorization to use in the trial of Kenneth G. Walker, et al., the originals of the documents identified in Mr. Real's letter to you dated June 10, 1965. As you are aware, the Board's response to this request has been held in abeyance pending conferences on and development of Mr. Real's Section 30 warning request. The Board has authorized Mr. Real's use of the documents in question subject to the conditions set forth in the Board's letter. It is understood that Mr. O'Connell of the Board's staff has discussed these conditions and their implementation with your Bank's General Counsel and his associates. As noted in the Board's letter, it would appear that implementation of the Board's authorization would be best facilitated through contact by your staff with the United States Attorney prior to any action taken in response to the Board's authorization.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure