

Minutes for December 7, 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 proposed to place in the record of policy actions required to be kept under the provisions of section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below:

Page 6 Approval of a discount rate of 4-1/2 per cent for the Federal Reserve Banks of Boston and Atlanta, and also for other Reserve Banks if their directors acted to establish such a rate.

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. Robertson

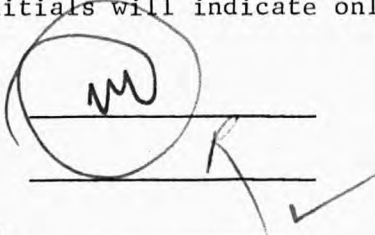
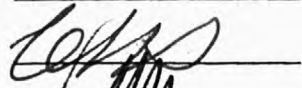
Gov. Balderston

Gov. Shepardson

Gov. Mitchell

Gov. Daane

Gov. Maisel




Minutes of the Board of Governors of the Federal Reserve System
on Tuesday, December 7, 1965. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Young, Senior Adviser to the Board and Director,
Division of International Finance
Mr. Holland, Adviser to the Board
Mr. Solomon, Adviser to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research and
Statistics
Mr. Hooff, Assistant General Counsel
Mr. Partee, Associate Director, Division of Research
and Statistics
Mr. Dembitz, Associate Adviser, Division of Research
and Statistics
Mr. Sammons, Associate Director, Division of Inter-
national Finance
Mr. Irvine, Adviser, Division of International
Finance
Messrs. Goodman, Leavitt, and Thompson, Assistant
Directors, Division of Examinations
Mrs. Semia, Technical Assistant, Office of the
Secretary
Mr. Morgan, Staff Assistant, Board Members' Offices
Mr. Forrestal, Senior Attorney, Legal Division
Mr. Veenstra, Chief, Financial Statistics Section,
Division of Data Processing
Mr. Staiger, Senior Economist, Division of Data
Processing

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

12/7/65

Item No.

Letter to the Ambassador from Venezuela stating that, in response to a request for the temporary services of a bank examiner, Robert Hochstatter would be assigned to assist in the investigation and audit of a Venezuelan development bank.	1
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Telegram to the Federal Reserve Agent at Chicago authorizing the issuance to K-J Investment Company, Moline, Illinois, of a limited permit to vote its stock of The Farmers National Bank of Knoxville, Knoxville, Illinois.	2
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Letter to the Federal Reserve Bank of Boston regarding certain questions arising in connection with the proposal by a national bank to acquire the assets and assume the liabilities of a savings and loan association. (With a copy to the Comptroller of the Currency.)	3
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Request by Central Bank of Trinidad and Tobago. There had been distributed a memorandum dated December 3, 1965, from Mr. Young stating that the International Monetary Fund wished to submit to the Government of Trinidad and Tobago names of possible candidates for the governorship of the Central Bank. The Fund had selected several names, as listed in the memorandum, from a roster of Federal Reserve System personnel who might be available for foreign assignments. It was not known whether any of the individuals mentioned would be interested in the assignment, but the Fund would like to know whether they might be available and whether the Board would have any objection to the submission of their names to the Government of Trinidad and Tobago for its consideration. Two other possible candidates were mentioned in Mr. Young's memorandum, and it was suggested that the Board might wish to propose additional names.

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After a discussion of the qualifications and possible availability of the various persons named, Governor Robertson asked that the matter be deferred in order that he might make a further suggestion in executive session.

Secretary's Note: In executive session, Governor Robertson suggested the name of a member of the Board's staff. However, it subsequently developed that he was not interested in being considered for the post. The Monetary Fund later indicated that the Government of Trinidad and Tobago probably would fill the position from a non-U.S. source.

Form of condition report (Items 4 and 5). On September 27, 1965, the Board approved the adoption of a revised condition report form for use by State member banks. The form reflected the outcome of prolonged negotiation among the Federal bank supervisory authorities. It was based principally on a draft report form proposed by the Comptroller of the Currency, in effect as a response to the Board's proposal for a compromise format that was transmitted to the other agencies in December 1964 and modified in early 1965. The Board's September 1965 approval contemplated that the staff would negotiate further on the reporting of real estate loans and other minor points.

There had now been distributed a memorandum dated December 1, 1965, from Messrs. Partee and Veenstra submitting a draft letter to the Bureau of the Budget that would request clearance for the report

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form proposed for use by State member banks. The memorandum, however, pointed out that there had been one major change requiring reappraisal of plans. The Comptroller of the Currency had now decided to revert to the old maturity schedule for reporting U.S. Government securities, rather than to use an issue reporting schedule.

After commenting on the apparent reasons for the change in the Comptroller's position, (the principal one being that the Comptroller apparently had understood, incorrectly, that the Treasury Ownership Survey would be dropped for the months of December and June if he collected the data by issues from national banks), the memorandum stated that the staff felt the reasons favoring use of the issue schedule in June and December condition reports, even aside from possible Treasury uses of the data, were persuasive. It was understood that the staff of the Federal Deposit Insurance Corporation shared this view. Briefly, issue reporting would permit easier reporting, greater accuracy, and greater usefulness and flexibility both for current and longer range applications. Banks that reported in the Treasury Ownership Survey would be able to use the same data with only minor variations for the call report, while banks not now reporting to the Treasury should be able to report holdings by issue with considerably more ease and accuracy than on the old maturity schedule. The Federal Deposit Insurance Corporation was now printing its year-end call forms, using the new issue format.

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Given the Comptroller's position, the fact that he was not at present available for further discussion of the subject, and the Treasury's reluctance to furnish the full issue schedule for reporting national banks, the alternatives seemed to be as follows:

- (1) use a slip sheet to obtain the issue listing for Government and agency securities from all national banks;
- (2) use a slip sheet to obtain the issue listing from national banks not included in the Treasury sample;
- (3) make no collection from national banks; for compilation purposes, the maturity distribution furnished by the Treasury could be used for banks reporting in the Ownership Survey, and the data collected by the Comptroller could be used for the other national banks.

Comments in the memorandum on these alternatives indicated the staff's preference for the first, although it would, of course, run the greatest risk of objection from the Comptroller's Office and, because it involved some question of duplication of reporting with the Treasury Survey, there might be difficulty in getting Budget Bureau approval of the slip sheet.

The tenor of discussion was that the first alternative appeared preferable, and there was unanimous agreement that an attempt should be made to obtain Budget Bureau clearance on that basis before considering the other alternatives.

The letter to the Bureau of the Budget requesting clearance of the revised format of the report of condition was then approved unanimously in the form attached as Item No. 4. A copy of the letter subsequently

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sent to the Bureau of the Budget requesting clearance on the proposed slip sheet for national banks is attached as Item No. 5.

Messrs. Sammons, Hooff, Irvine, Goodman, Thompson, Forrestal, Veenstra, and Staiger, and Mrs. Semia then withdrew from the meeting and Mr. Solomon, Director, Division of Examinations, entered the room.

Chairman Martin, who had visited yesterday with the President in Texas, in company with certain Administration officials, commented informally on some of the matters that had been discussed with the President and on the press conference that was held incident to the meeting.

Discount rates. The Boards of Directors of the Federal Reserve Banks of Boston and Atlanta had established, subject to the approval of the Board of Governors, a rate of 4-1/2 per cent on discounts for and advances to member banks under sections 13 and 13a of the Federal Reserve Act and a rate of 5 per cent on advances under section 10(b). In addition, the Boston Bank had established a rate of 5-1/2 per cent on advances under the last paragraph of section 13, while the Atlanta Bank had established a rate of 6-1/2 per cent on such advances.

The establishment of such rates by those Banks was approved effective December 8, 1965, with the understanding that a press release would be issued this afternoon, that appropriate advice would be sent by wire to the two Banks and also to the other Federal Reserve Banks, and that a notice would be published in the Federal Register.

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In addition, upon receipt of advice that other Reserve Banks had acted to establish a rate of 4-1/2 per cent on discounts and advances under sections 13 and 13a, along with appropriate subsidiary rates, the Secretary was authorized to advise such Banks of approval of such rates by the Board of Governors, with the understanding that the usual press statement would be issued and that appropriate notification and publication procedures would be followed.

Secretary's Note: Acting under this authorization, the Secretary subsequently advised the Federal Reserve Banks shown below of approval of the establishment by them of a rate of 4-1/2 per cent on discounts and advances under sections 13 and 13a and of indicated rates on other advances, effective the dates indicated:

Philadelphia	December 10, 1965
Cleveland	December 10, 1965
Richmond	December 10, 1965
St. Louis	December 10, 1965
Minneapolis	December 10, 1965
Dallas	December 10, 1965
San Francisco	December 10, 1965
Kansas City	December 13, 1965

The rate established and approved for each of the Banks on advances under section 10(b) was 5 per cent. The rates established and approved on advances under the last paragraph of section 13 were as follows: Philadelphia, Richmond, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco - 5-1/2 per cent; Cleveland - 6 per cent.

Reserve requirements. Pursuant to the understanding at yesterday's meeting, there had been distributed copies of a memorandum from Messrs. Young, Brill, Holland, and Solomon (Adviser) dated December 6, 1965, stating that they had reexamined two reserve requirement reduction

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plans previously presented to the Board and that they had also devised a third variant combining the features of the other plans that seemed to have elicited favorable response at the Board meeting yesterday. All of the plans introduced the graduated reserve principle, two in entirety and the other one partially. All would result in a net release of reserves, in amounts ranging from \$300 million to \$550 million. All would release reserves for the smallest banks, but the first and third plans would raise reserve requirements for larger banks. The second and third plans would reduce the requirement on the first \$2 million of net demand deposits to the statutory minimum of 7 per cent. The first plan would reduce the requirement on the first \$5 million of deposits to 8 per cent. The second plan would affect no bank adversely. The third plan would affect adversely only country banks with net demand deposits of above \$52 million and reserve city banks above \$520 million, while the first plan would affect adversely country banks with deposits above \$45 million and reserve city banks with deposits above \$497 million.

The memorandum pointed out that there appeared to be no need to inject reserves for seasonal purposes until early February. A substantial injection now would probably require some offsetting open market sales, spread over time as the released reserves drifted in to the money markets. Moreover, any action that increased reserve pressures on money market banks during the period of tax and dividend date flows would compound

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money market pressures. Accordingly, the most relevant effective date for a reserve reduction of the types that the first and third plans would afford would likely be the reserve week beginning December 23, which would also be the beginning of a country bank reserve computation period. The second plan could be introduced as early as the reserve period beginning December 9. The problem of selecting an appropriate effective date, however, did not prejudice the choice of an announcement date, so long as the interval was not too long.

Chairman Martin said he had not yet had an opportunity to study the memorandum or the proposals discussed therein. In general, while he would have no objection to discussing the subject, he felt that it would be premature for the Board to take any additional policy action at this particular juncture.

The discussion of the alternative proposals then proceeded, and during this discussion Governor Maisel noted that a first decision was whether the Board wanted to move on a proposal that would become effective for the reserve computation period beginning December 9. He thought there would be decided advantages in moving about that time if the Board was going to move, and he felt that a decision to delay should be a conscious decision.

Chairman Martin said it was his feeling that a move on reserve requirements would only complicate the present situation. He believed

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that the announcement of any such action might be blown out of proportions. However, he would not be averse to taking some action of this kind at an appropriate time.

Governor Mitchell questioned whether a reserve requirement action would necessarily have the effect Chairman Martin had indicated, and the latter commented that this was a matter of judgment. Various interpretations, he believed, might be placed on such an action if taken at this particular time.

Governor Shepardson observed that the Board, in previous discussions of reserve requirements, had talked in terms of reducing the disparity between requirements of reserve city and country banks. As he read the figures related to the current proposals, this disparity would be increased, at least on the two ends.

Governor Mitchell commented that the very small member banks do not compete importantly with the large banks. However, they do have to compete among themselves. The third of the three plans now before the Board would go as far as possible toward minimizing the costs of the small banks.

Governor Shepardson noted that under this plan a substantial number of banks would have their requirements increased, and Governor Mitchell observed that these were mostly the large country banks, which had been occupying a preferred position.

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There ensued further references to the question of timing, with mention being made that there would appear to be no need for injection of reserves for seasonal purposes until early February.

Governor Robertson commented that the Board was going to be criticized in some quarters whenever it took action of this kind. However, the actions taken on December 3 would be the focus of attention for the next couple of months. Hence, if reserve requirements were adjusted now, the move might not be subject to so much criticism as otherwise. In taking its actions on December 3 the Board had made it possible for the large banks to draw funds away from the small banks, and this would suggest that the Board was in a good position now to move on reserve requirements in a way that would benefit the small banks. He favored a graduated system of reserve requirements, and he felt that the Board might now be in the best possible position to move in that direction.

Governor Mitchell commented that there would be criticism from the large banks if action along the lines suggested was taken at any time. However, he recognized the possibility that action at this particular time might be subjected to interpretations of the kind to which the Chairman had alluded earlier.

There followed additional discussion of various elements of the staff proposals and of a memorandum from Mr. Hackley, distributed under yesterday's date, submitting a draft of a possible revision of the Supplement to Regulation D, Reserves of Member Banks, that would establish

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graduated reserve requirements (of undetermined amounts) against net demand deposits for all member banks. Mr. Hackley had also submitted a draft of proposed amendments to Regulations D and Q, Payment of Interest on Deposits, that would in effect define deposits, both for reserve purposes and for purposes of payment of interest on deposits, as including promissory notes of member banks, with specified exceptions.

On the promissory notes, Governor Mitchell said that his previous objections to amendments along the lines submitted by Mr. Hackley had been removed by virtue of the action taken to raise the maximum rate permitted to be paid by member banks on time deposits.

Chairman Martin observed that it would seem appropriate for him to meet with the Comptroller of the Currency before proposed amendments on promissory notes were published for comment, and question was raised whether the Chairman would want to be authorized to say to the Comptroller that the Board was prepared to take such action. However, the Chairman indicated that he did not believe matters had yet developed to the point that this would be necessary.

Chairman Martin also noted that Chairman Patman of the Joint Economic Committee was preparing to call hearings next week on the Board's discount rate and Regulation Q actions.

All members of the staff except Messrs. Sherman, Kenyon, Hackley, and Morgan then withdrew from the meeting.

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Director appointments. Chairman Martin reported that he had discussed with Raymond Rebsamen, Chairman of the Federal Reserve Bank of St. Louis, certain problems that had arisen in connection with Mr. Rebsamen's continuing as Chairman and as a Class C director of the Bank. On the basis of this clarifying conversation, Chairman Martin recommended that Mr. Rebsamen be reappointed as a Class C director for the three-year term beginning January 1, 1966, and designated as Chairman and Federal Reserve Agent for the calendar year 1966, and these actions were agreed upon. The Board also appointed Smith D. Broadbent, Jr., as Deputy Chairman of the St. Louis Bank for the year 1966.

It was agreed to request the Chairman of the Federal Reserve Bank of Richmond to ascertain whether Wilbur G. Smith, General Manager, Sparrows Point Works of Bethlehem Steel Corporation, Baltimore, Maryland, would accept appointment, if tendered, as a director of the Baltimore Branch for the unexpired portion of the term ending December 31, 1966, to replace Harry B. Cummings, who had resigned, with the understanding that if Mr. Smith would accept, the appointment would be made. If it should be found that he was not available, it was understood that similar inquiry would be made with respect to Lewis M. Smith, Vice President, Chesapeake and Potomac Telephone Company, Baltimore, Maryland.

It was agreed to ascertain through the Chairman of the Federal Reserve Bank of Richmond whether John L. Fraley, Executive Vice President

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of Carolina Freight Carriers, Inc., Cherryville, North Carolina, would accept appointment, if tendered, as a director of the Charlotte Branch for the three-year term beginning January 1, 1966, with the understanding that if it were found that he would accept, the appointment would be made.

Secretary's Note: It having been ascertained that Mr. Fraley would accept the appointment if tendered, an appointment wire was sent to him on December 8, 1965.

Governor Mitchell reported that he had discussed with Chairman Lunding of the Federal Reserve Bank of Chicago the appointment of a Class C director of the Bank for the three-year term beginning January 1, 1966. On the basis of Governor Mitchell's report, it was agreed to ascertain through Chairman Lunding whether Elvis J. Stahr, Jr., President of Indiana University, Bloomington, Indiana, would accept the appointment, if tendered, with the understanding that if it were found that he would accept, the appointment would be made.

Secretary's Note: It having been ascertained that Mr. Stahr would accept the appointment if tendered, an appointment wire was sent to him on December 14, 1965.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

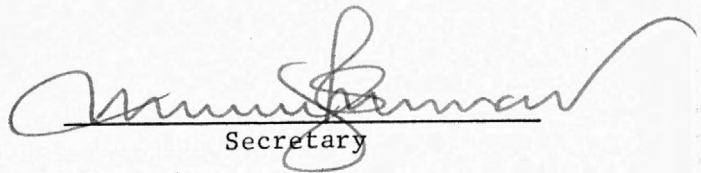
Letter to the Federal Reserve Bank of New York (attached Item No. 6) approving the appointment of William L. Mayer as assistant examiner.

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Memorandum from the Division of Administrative Services recommending acceptance of the resignation of Verna Ruth Hornbeck, Cafeteria Helper in that Division, effective at the close of business November 29, 1965.

Memorandum dated December 1, 1965, from Mr. Young, Senior Adviser to the Board and Director, Division of International Finance, requesting that four specified staff members of the Division of International Finance be authorized to attend at Board expense the annual meetings of the Allied Social Science Associations to be held in New York City, December 28-30, 1965.



Secretary



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 1
12/7/65

OFFICE OF THE CHAIRMAN

December 7, 1965.

His Excellency
Dr. Enrique Tejera-Paris,
Embassy of Venezuela,
Washington, D. C. 20008.

Dear Mr. Ambassador:

In your letter of November 24, 1965, you relayed a request from Banco Industrial of Venezuela for the temporary services of a bank examiner. The bank examiner would go to Caracas for a period of about one week to help in the investigation and audit of a local development bank which may have been involved in some irregularities.

It is a pleasure to inform you that the System can make available to you the services of Mr. Robert Hochstatter, Senior Examiner for the Federal Reserve Bank of Chicago. Mr. Hochstatter is a competent and highly regarded examiner, who has been employed by the Federal Reserve Bank of Chicago for 24 years. He also has a fairly good knowledge of Spanish which we believe would be helpful.

We note that Banco Industrial of Venezuela will reimburse the Federal Reserve for Mr. Hochstatter's expenses. There will be no fee charged for his services.

Let me assure you that the Federal Reserve System is pleased to be able to make available the services of one of our examiners.

Sincerely yours,

A handwritten signature in cursive script that reads "Wm. McC. Martin, Jr.".

Wm. McC. Martin, Jr.

TELEGRAM
LEASED WIRE SERVICE

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**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON**

Item No. 2
12/7/65

December 7, 1965

LUNDING -- CHICAGO

KECEA

- A. K-J Investment Company, Moline, Illinois.
- B. The Farmers National Bank of Knoxville, Knoxville, Illinois.
- C. None.
- D. At any time prior to December 31, 1965, at a special meeting of shareholders of such bank, or any adjournments thereof, to amend the Articles of Association of such bank as follows: (1) to declare a \$60,000 stock dividend; (2) to change the par value of the outstanding stock from \$100 to \$10 per share; and (3) to permit the appointment during any one year of two additional directors between annual meetings, provided that all action taken shall be in accordance with plans satisfactory to the Comptroller of the Currency.

(Signed) Karl E. Bakke

BAKKE

Definition of KECEA:

The Board authorizes the issuance of a limited voting permit, under the provisions of section 5114 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

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Item No. 3
12/7/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 7, 1965.

Mr. Luther M. Hoyle, Jr.,
Vice President,
Federal Reserve Bank of Boston,
Boston, Massachusetts. 02106

Dear Mr. Hoyle:

This refers to your letter of November 22, 1965, transmitting a request for answers to certain questions arising in connection with the proposal by a national bank to acquire the assets and assume the liabilities of a savings and loan association.

It is stated that the association has been paying a quarterly dividend of 4.25 per cent per annum which, in effect, is similar to a 90-day withdrawal privilege, although no written contract provides for this. However, it is probable that the practice of the association is to permit a customer to withdraw his funds at any time upon demand, the only penalty being loss of some interest.

The questions are whether the national bank may continue to pay this 4.25 per cent rate without requiring a written contract or certificate of deposit and, if this cannot be done, whether the bank may continue paying interest at this rate for a period of 18 months to allow for orderly integration of these accounts with its present savings deposits.

The answer to both questions is in the negative. Regulation Q provides that a member bank may not pay interest exceeding 4 per cent per annum on a savings deposit. Furthermore, some of the accounts in the association probably would not qualify for deposit in a savings account. Also the bank would not have reserved the right to require at least 30 days' written notice before withdrawal. In order for the bank to pay interest at the 4.25 per cent rate there must exist an agreement or contract providing that the funds represented thereby may not be withdrawn for a period of at least 30 days. Therefore, the accounts acquired from the savings

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Mr. Luther M. Hoyle, Jr.

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and loan association would not qualify as either savings or time deposits of the member bank and would be demand deposits upon which no interest may be paid.

However, if these accounts are acquired by the bank during the running of a quarterly period, the Board will not object to the bank's paying interest at the 4.25 per cent rate until the end of the first complete quarterly period when valid time deposit contracts must be executed in order for the bank thereafter to pay interest in excess of 4 per cent.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 4
12/7/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 9, 1965.

Mr. Edward T. Crowder,
Clearance Officer,
Office of Statistical Standards,
Bureau of the Budget,
Executive Office of the President,
Washington, D. C. 20503

Dear Mr. Crowder:

This is to request clearance by your Agency of a revised report of condition to be collected from State bank members of the Federal Reserve System. Two copies of your form 83, the proposed condition report form, and the required supporting statement, are enclosed. This request recognizes use of this report for the collection of statistical information as well as for the regulatory and supervisory purposes for which it is also used.

Balance sheet information for the 1430 State member banks, when compiled with data for the 4800 national and 7300 nonmember banks, is the primary source of balance sheet statistics for the commercial banking system. Summary data for mid-year and year-end call dates are used extensively by economists, financial analysts and others in Government and elsewhere and are required by the Board in the conduct of its responsibilities for monetary policy. These data are also widely used as benchmark universe data and form the foundation on which many other important statistical series with smaller reporting bases are built.

For your information, it is understood that the Federal Deposit Insurance Corporation will use the same form, including the issue schedule of U. S. Government direct obligations and obligations of Federal agencies not guaranteed by the Government, to collect data from insured nonmember commercial banks. It is also understood that the Comptroller of the Currency will use a form similar to the enclosed except that it will not include the schedule of Government and agency

Mr. Edward T. Crowder

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securities by issue. Our information is that national banks will report Government direct obligations in the same maturity schedule as was used in the previous report and Agency securities in a single item with no breakdown.

The enclosed form follows closely proposals made by the Comptroller of the Currency through an inter-agency committee of the heads of the Federal bank supervisory agencies, in response to an earlier proposal made by the Board. The Comptroller's proposal climaxed approximately two years of negotiations during which time the reports collected from State and national banks have differed substantively. Nearly all of the Comptroller's proposals were adopted by the other Federal bank supervisory agencies, and approved by the National Association of Supervisors of State Banks, in the interests of uniformity. Reconciliation of the most important differences previously existing has been achieved by means of memoranda reporting of the amount of securities purchased and sold under repurchase transactions, recognizing differences in regulatory policy concerning these transactions. Board representatives are continuing to discuss methods of achieving uniformity of reporting Government and Agency securities or of deriving uniform data in this area for all classes of banks. We will keep your Office advised as these discussions progress.

The enclosed form will be used at mid-year and year-end call dates. It is planned to use a shorter form for surprise spring and fall call dates, to include only the items on the face of the report and the few items on the reverse that are required for deposit insurance assessment purposes.

No request for clearance is being made for four report forms that have been submitted for clearance in earlier years. Form 105e is the publisher's copy supplement used for joint publication of condition data under applicable State and Federal statutes, and form 105e is used for the same purpose by banks publishing only under Section 9 of the Federal Reserve Act. The purpose is strictly supervisory and the reported data are not used for statistical purposes. Form 220 and form 220a, the Report of an Affiliate or a Holding Company Affiliate and the related publisher's copy, are also strictly supervisory forms required under existing legislation with no statistical uses. All of these forms are retained at the Reserve Banks and no copies or summaries are forwarded to the Board.

Very truly yours,
(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures.

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

Item No. 5
12/7/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 16, 1965.

Mr. Edward T. Crowder,
Clearance Officer,
Office of Statistical Standards,
Bureau of the Budget,
Executive Office of the President,
Washington, D. C. 20503

Dear Mr. Crowder:

There are enclosed two copies of your form 83 and a proposed schedule to be used to collect issue data on holdings of U. S. Government direct and guaranteed obligations and of Federal agency obligations by national member banks. When used with corresponding information to be collected from State member banks by the Federal Reserve System and from insured nonmember banks by the Federal Deposit Insurance Corporation, these data will provide consistent and uniform data for all member and all insured commercial banks.

As discussed at length in the letter and supporting statement of December 9 which transmitted the request for clearance of the corresponding State member bank condition report form, issue reporting is considered to be a substantial improvement over the maturity schedule previously used because it is considerably less burdensome to respondents and provides more accurate information of greater analytic usefulness. Consistent information coming from virtually all banks in the country will be helpful to the Treasury in estimating the coverage of its monthly sample Ownership Survey. It will also be helpful in gauging the potential market for new Treasury debt issues, including participation certificates and obligations of Federal agencies. As discussed in detail in the supporting statement, these data are required to support a wide range of vital research work in which the Federal Reserve System has already invested heavily.

Mr. Crowder

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This schedule was drawn in the same form as is used for the Treasury Ownership Survey collected monthly from about 6000 commercial and mutual savings banks. The banking agency form has been revised slightly to include a few securities held by only a few banks which are considered guaranteed or agency issues by the banking agencies but not by the Treasury, and to include memoranda items for total book value of Government and agency obligations to tie into corresponding items on the face of the report of condition.

As you know, this form for collecting information on U. S. Government and Federal agency securities was adopted unanimously after extensive negotiations among representatives of the Federal and State bank supervisory authorities. Since that time the Comptroller of the Currency has decided to revert to the old maturity schedule for national banks. Unless some additional information is obtained from national banks, the data collected from national and State banks will be inconsistent and incompatible. National bank data will be based on book values in the old 10-way issue and maturity breakdown, and summary data for all member and insured banks can not be compiled except for some rough estimates of totals on a national basis. No data would be available in the more detailed geographical breakdowns for publication in the numerous releases of the Board and the FDIC, and the data could not be used for research purposes requiring regional, size, or other breakdowns, or requiring comparable data for individual banks. No breakdown of agency issues would be available.

Since Treasury representatives are concerned over the possibility of any discontinuities in their series, the semi-annual report collected by the banking agencies would not replace the Treasury reports. Treasury representatives have also declined to make available Survey data for individual banks since this would invalidate a written understanding with their respondents that such data would not be used outside Treasury Offices.

The burden on respondents of essentially duplicating information on the two forms is more apparent than real. The data are readily available from bank records and no separate or special preparation is necessary. For most of the large national banks participating in the Treasury Survey, completion of the additional call report schedule would involve no more than submitting a duplicate copy of their December and June Ownership schedules with a notation of the book value items added. Treasury representatives have emphasized that issue reporting is not burdensome due to its simplicity. They could recall no single complaint that the schedule was complex and difficult throughout the 24-year period the Survey has been in effect.

Mr. Crowder

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Treasury representatives have expressed a strong interest in obtaining universe data from which monthly totals can be blown up to universe totals. Because of serious inaccuracies in reporting the maturity schedule previously used, this has been impossible. Misclassifications according to maturity, and often arbitrary and inconsistent allocations of valuation reserves by maturity class in adjusting from par to book value, have reduced the usefulness of call report data for this and other equally important purposes. Total bank holdings estimates made by the Treasury have been imperfect, and revisions based on new call report data have required extensive computations in order to isolate the shifting book value factors, as well as arbitrary judgments as to the extent of misclassifications. The proposed format would eliminate these problems while providing the regulatory agencies with far more accurate data on commercial bank holdings of Government securities.

The investment requirements of small commercial banks differ from those of the larger institutions, but without adequate data to indicate small bank interest, or potential participation, new U. S. Government and Federal agency security issues usually must be designed primarily to meet the needs of larger institutions. For example, although the Treasury has been aware of the preference on the part of smaller banks for "rights" refunding of maturing securities, rarely is it able to determine the relative importance of this consideration due to the lack of data concerning small bank holdings of specific upcoming maturities.

It is hoped that the Comptroller of the Currency may recognize these values and adopt issue reporting for the June call. Because the national bank form has been printed and distributed, the possibility of making any change for the December call seems to be ruled out. Negotiations to achieve this end by the June call will be pursued intensively.

Because of the obvious time limitations for the December call, we would appreciate your consideration of these proposals at your earliest convenience.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

4080

Item No. 6
12/7/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 7, 1965

Mr. Fred W. Piderit, Jr., Vice President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Piderit:

In accordance with the request contained in your letter of December 2, 1965, the Board approves the appointment of William L. Mayer as an assistant examiner for the Federal Reserve Bank of New York. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.