

Minutes for February 3, 1966.

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

ML

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. Mitchell

Gov. Daane

Gov. Maisel

LRH  
MM  
DD  
gjm

Minutes of the Board of Governors of the Federal Reserve System on Thursday, February 3, 1966. 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. Kenyon, Assistant Secretary  
Mr. Young, Senior Adviser to the Board and  
Director, Division of International Finance  
Mr. Holland, 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. Solomon, Director, Division of Examinations  
Mr. Johnson, Director, Division of Personnel  
Administration  
Mr. Kakalec, Controller  
Mr. Schwartz, Director, Division of Data  
Processing  
Messrs. Shay and Hooff, Assistant General  
Counsel  
Mr. Koch, Deputy Director, Division of Research  
and Statistics  
Mr. Sammons, Associate Director, Division of  
International Finance  
Mr. Leavitt, Assistant Director, Division of  
Examinations  
Mr. Langham, Assistant Director, Division of  
Data Processing  
Mrs. Semia, Technical Assistant, Office of the  
Secretary  
Messrs. Forrestal and Sanders, Senior Attorneys,  
Legal Division  
Mr. Maguire, Supervisory Review Examiner, Division  
of Examinations

Proposed legislation for settlement of international investment  
disputes (Item No. 1). There had been distributed a memorandum dated

2/3/66

-2-

February 1, 1966, from the Legal Division regarding the request of the Bureau of the Budget for the views of the Board on a Treasury draft bill to implement the obligations of the United States under a new convention, signed in August 1965, for the settlement of international investment disputes. The memorandum described the provisions of the convention and summarized the draft bill. Attached to the memorandum was a draft of letter that would inform the Bureau of the Budget that the Board favored the proposed legislation.

After discussion the letter was approved unanimously. A copy is attached as Item No. 1.

Proposed report on S. 2575. There had been distributed a memorandum dated January 24, 1966, from the Legal Division regarding a request from Chairman Robertson of the Senate Committee on Banking and Currency for the Board's views on S. 2575, a bill "to strengthen certain laws relating to banking." Among other things, the bill dealt with procedures for obtaining a national bank charter, exchange of information concerning banks by supervisory agencies, compensation by insured banks for obtaining deposits, registration of money brokers, reports of certificates of deposit issued by insured banks, and stock acquisitions resulting in changes in control of insured banks. The bill would also provide for a Government study with respect to reorganization of functions exercised by Federal bank supervisory agencies. The memorandum commented on the various provisions of the bill and submitted a draft reply to the Committee that would discuss generally several

2/3/66

-3-

of the provisions but express the view that if the study of Federal supervision of financial institutions was made, as one section of the bill called for, recommendations might be forthcoming that would lead to solutions of problems in other areas with which the bill dealt. Therefore, the draft reply would state that the Board favored enactment, as separate legislation, of the substance of the section providing for the study.

Comments by Mr. Sanders were followed by a discussion during which Governor Maisel suggested that, since there had been some indication that the Administration expected to propose legislation in the bank supervisory area, it might be well to hold substantive comments on the present bill in abeyance. Governor Mitchell agreed and expressed the view that in any event the proposed reply was inadequate in its treatment of the various sections of S. 2575.

Chairman Martin then suggested deferring consideration of the proposed report until the Board could have the advice of Mr. Cardon, Legislative Counsel, who was unable to attend this morning's meeting, and there was general agreement with this suggestion.

Investments in bank premises and declaration of dividends.

There had been distributed a memorandum dated January 26, 1966, from the Legal and Examinations Divisions suggesting a procedure for the processing by the Board of requests for approval of investments in bank premises by State member banks under section 24A of the Federal Reserve

2/3/66

-4-

Act and for declaration of dividends by State member banks under section 5199(b) of the Revised Statutes. A number of such matters, the memorandum suggested, would not seem to require the Board's detailed attention if a procedure could be established whereby the staff, after making a factual determination and concluding that the proposal clearly involved no undue risk and contained no unusual circumstances, could submit the case to the Board by means of a brief memorandum (a sample of which was attached) with only the comment that the matter fell within certain established guidelines. The recommended guidelines were as follows:

Investment in bank premises. (1) The bank is in reasonably satisfactory condition, with an asset rating of A or B and a management rating of S or F, (2) at the most recent examination the bank's capital was rated 1 or I, and (3) upon completion of the proposed investment, the aggregate investment, direct and indirect and including the indebtedness of any wholly-owned bank premises subsidiary in bank premises, does not exceed 40 per cent of the bank's total capital funds plus valuation reserves.

Declaration of dividends. The bank is in a reasonably satisfactory condition with an asset rating of A or B and a management rating of S or F, (2) at the most recent examination the bank's capital was rated 1 or I, and (3) after payment of the proposed dividend, the bank's capital would still be rated 1 or I.

In any instance where an application fell outside any one of the guidelines, the staff was of the opinion that the application should be denied, or the staff had doubts about recommending approval, a memorandum containing all pertinent data would be submitted to the Board.

Discussion reflected a unanimous view among the members of the Board in favor of reducing paper work to whatever extent was consistent

2/3/66

-5-

with proper discharge of the Board's responsibilities. Alternative suggestions were made that matters of the type involved in the present proposal might be approved by one member authorized to act on behalf of the Board; or that, if the Board set specifications deemed to justify approval, a finding by the staff that a certain situation fell within those specifications might be considered to constitute approval by the Board. However, Mr. Hackley expressed doubt whether these procedures would fulfill the statutory requirement that any investment in bank premises or declaration of dividends coming within the purview of the cited sections of law be approved by the Board. It was his view that procedures with respect to such applications must be kept within a framework that represented at least technical approval of individual cases by the Board, and that any step beyond the procedures recommended might have overtones of inconsistency with legislation the Board had proposed that would give specific authorization to delegate certain functions. He also had qualms in terms of the precedent that would be established and its possible extension to other types of applications.

The suggestion then was made that the brief memoranda that the staff proposed to submit to the Board not be prepared, but that the applications be listed on the Board agenda for action. Such a procedure, it was pointed out, would afford an opportunity for any Board member to raise a question or to request the complete file for review.

At the conclusion of the discussion it was agreed that on an experimental basis applications by State member banks for approval of

2/3/66

-6-

investments in bank premises under section 24A of the Federal Reserve Act and for declaration of dividends under section 5199(b) of the Revised Statutes would be listed on the agenda for Board action, without circulation or distribution of supporting papers, in cases where staff analysis determined that the applications met the standards set forth in the January 26 memorandum.

Appointments of Assistant and Alternate Assistant Agents. On May 27, 1965, the Board vested in Governor Shepardson for the year beginning August 1, 1965, the direction at the Board level of its internal administrative affairs, including matters pertaining to Board personnel, budget, and housekeeping. This action continued, among other things, Governor Shepardson's authorization to approve on behalf of the Board (1) all personnel actions relating to Board employees other than members of the official staff, and (2) the proposed appointment of examiners, assistant examiners, and special or special assistant examiners of the Federal Reserve Banks. It continued to be the understanding that all approvals by Governor Shepardson under this authorization would be entered in the minutes as of the date of his approval.

At this meeting the Board also authorized Governor Shepardson to approve on behalf of the Board the proposed appointment of Assistant and Alternate Assistant Federal Reserve Agents and Federal Reserve Agents' Representatives, it being understood that such approvals would likewise be entered in the minutes.

2/3/66

-7-

Outside requests for financial data (Item No. 2). There had been distributed a memorandum dated January 26, 1966, from the Divisions of Data Processing and Research and Statistics suggesting the establishment of policy guidelines for handling outside requests for financial statistics collected by the System involving data processing services, with a view to permitting the staff to handle most such requests without submission to the Board. Seven proposed guidelines were set forth in the memorandum, and attached was a schedule of reimbursable costs for outside use of data processing facilities.

Discussion resulted in a consensus that the proposed guidelines should be amended in several respects, among them to specify first priority for the Board's own work, to define more clearly the circumstances under which work would be performed, with or without charge for Government agencies, to set a dollar limit on the cost of reimbursable projects that would be handled without specific Board approval, and to assure preservation of the confidentiality of individual bank data.

Subject to such revisions, to be effected in terms satisfactory to Governor Shepardson, the proposed guidelines were approved unanimously. A copy of a memorandum of February 11, 1966, from the Divisions of Data Processing and Research and Statistics setting forth the revised guidelines, as reviewed by Governor Shepardson, is attached as Item No. 2.

The meeting then adjourned.

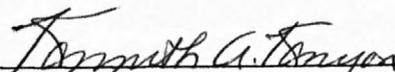
Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

2/3/66

-8-

Letter to the Federal Reserve Bank of Richmond (copy attached as Item No. 3) regarding arrangements for the assignment to the Board's Division of Examinations of Lloyd Woodson Bostian, Jr., an examiner for the Bank, for a period of approximately one year beginning March 1, 1966.

Memorandum from Thomas M. Klein, Economist, Division of International Finance, requesting permission to teach a course in International Economics at the University of Maryland.

  
Assistant Secretary

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1

2/3/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 3, 1966.



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

Dear Mr. Hughes:

This is in reply to the Budget Bureau's Legislative Referral Memorandum, dated January 7, 1966, in which you requested the views of the Board on a Treasury draft bill "To carry out the obligations of the United States under the Convention on the Settlement of Investment Disputes between States and Nationals of Other States, signed on August 27, 1965, and for other purposes."

The Board believes that the establishment of international facilities for the settlement of disputes arising out of foreign investment could make an important contribution to the cause of economic cooperation and development, and could be a major step towards improving the climate for foreign investment. These objectives, if realized, could be of substantial benefit to United States banking institutions operating abroad.

For these reasons, the Board favors the proposed legislation and recommends that it be transmitted to the Congress for consideration.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

431

Item No. 2  
2/3/66

# Office Correspondence

Date February 11, 1966.

To Board of Governors  
(via Controller's Office)  
From Divisions of Data Processing  
and Research and Statistics

Subject: Proposed Guidelines for  
Staff Responses to Outside Requests  
for Financial Data.

The purpose of this memorandum is to establish policy guidelines for handling outside requests for financial statistics collected by the System involving data processing services. A clear policy would permit response to most of these requests at the Division level and would eliminate the need to refer them to the Board. The policy (a) distinguishes between work to be done at no charge and work for which a charge is to be made and (b) sets forth a schedule of costs in an Appendix.

## Recommendations

1. The general policy will be to be as responsive as possible to outside requests for the System's financial statistics, including the performance of necessary supporting data processing. It is understood that no outside work, unless directed by the Board, will be given a priority over the accomplishment of work for the Board and its staff.
2. Work will be performed without charge under the following circumstances except as noted in (c) below:
  - (a) For other Government financial agencies, since they are the sources of much of our original data.
  - (b) For Government nonfinancial agencies and private scholars and other responsible outsiders provided that review by the Division of Research and Statistics reveals that there is substantial potential System interest in the results.
  - (c) Projects that otherwise would be performed without charge but which would involve costs computed from the schedule shown in the attached appendix in excess of \$1,000 will be referred to the Board.
3. Other work for Government nonfinancial agencies, private scholars and other responsible outsiders will be performed on a reimbursable basis in accordance with the scale presented in the attached appendix. The Division of Data Processing will determine required resources to accomplish the work and develop project costs. Work to be performed on a reimbursable basis will be referred to the Board for approval if the costs exceed \$5,000, on the grounds that very large commitments of resources, even though reimbursed, should be reviewed by the Board.

To: Board of Governors

- 2 -

4. Confidentiality of data will be preserved. Specifications for data are to be for aggregates, averages, regressions, or similar statistical measures that do not reveal unpublished data reported by individual banks.
5. Requests will be forwarded to the Board for decision only when they are not covered by these guidelines or in other exceptional cases such as Committees of Congress.
6. This policy on processing of financial statistics is not meant to affect the present support given by the Division of Data Processing for econometric computations on behalf of (a) economic policy agencies such as the Council of Economic Advisers and (b) distinguished outside scholars.

In negotiating outside requests for access to the Board's data and equipment, every effort will be made to persuade inquirers to provide as much technical assistance as possible, particularly programming, so as to minimize the potential demand for additional staff.

APPENDIX

Scale of Reimbursable Costs for Outside Use  
of Data Processing Facilities

Computer	\$45.00 per hour
Accounting machine, 407	5.00 "
Sorter	1.00 "
Collator	1.00 "
Reproducer	1.00 "
Summary punch	.50 "
Interpreter	.50 "
IBM cards	1.00 per 1,000
EAM operator's salary	2.75 per hour (FR-4; night diff.)
Computer operator's salary	5.00 " (FR-7; overtime)
Other staff time	Variable (Planning, supervising, verification, etc.)
Overhead (space, electricity, air conditioning, etc.)	10% of the aggregate cost of all other reimbursable factors

**NOTE:** The computer rate is based largely on the average cost set for operating it in 1964. The EAM equipment rates are monthly rental costs divided by an estimated monthly use of 176 hours, with the rates rounded upward to the nearest half dollar. When changes occur in rental costs or in the salary structure, the above charges will be revised accordingly.

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

Item No. 3  
2/3/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 4, 1966.



Mr. Edward A. Wayne, President,  
Federal Reserve Bank of Richmond,  
Richmond, Virginia. 23213

Dear Mr. Wayne:

In accordance with the tentative arrangements made with Vice President Nosker by the Board's Division of Examinations, it is understood that your bank will make available for a period of approximately one year, beginning about March 1, 1966, the services of Mr. Lloyd Woodson Bostian, Jr., an Examiner for your Bank. While in Washington, Mr. Bostian will be assigned to the State Member Bank Section of the Board's Division of Examinations, but it is also hoped he will have an opportunity to become generally familiar with the work of the Division as a whole and to visit other divisions of the Board. While on assignment in Washington, Mr. Bostian will be designated as a Federal Reserve Examiner.

It is understood that the Federal Reserve Bank of Richmond will absorb all of Mr. Bostian's salary and travel expenses in connection with the assignment.

The Board of Governors appreciates the cooperation of your Bank in making the services of Mr. Bostian available during this period.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.