

Minutes for March 30, 1966

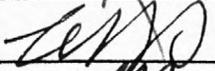
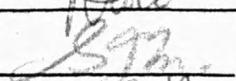
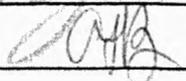
To: Members of the Board

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	<u></u>
Gov. Robertson	<u></u>
Gov. Shepardson	<u></u>
Gov. Mitchell	<u></u>
Gov. Daane	<u></u>
Gov. Maisel	<u></u>
Gov. Brimmer	<u></u>

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, March 30, 1966. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Holland, Adviser to the Board
Mr. Solomon, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research and Statistics
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel Administration
Mr. Kelleher, Director, Division of Administrative Services
Mr. Kakalec, Controller
Mr. Hexter, Associate General Counsel
Mr. Shay, Assistant General Counsel
Mr. Partee, Associate Director, Division of Research and Statistics
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Sprecher, Assistant Director, Division of Personnel Administration
Miss Wolcott, Technical Assistant, Office of the Secretary
Miss Hart, Mrs. Heller, and Mr. Sanders, Senior Attorneys, Legal Division
Mr. Keir, Chief, Capital Markets Section, Division of Research and Statistics
Messrs. McKee and White, Technical Assistants, Division of Bank Operations

3/30/66

-2-

Mr. Sapsara, Analyst, Division of Bank Operations
 Messrs. Egertson and Maguire, Supervisory Review
 Examiners, Division of Examinations
 Mr. Hart, Assistant to the Director, Division of
 Personnel Administration
 Mr. Millea, Assistant to the Controller

Approved letters. The following letters were approved unanimously after consideration of background information that had been made available to the Board. Copies of the letters are attached under the respective item numbers indicated.

	<u>Item No.</u>
Letter to The Peoples Bank, Bishopville, South Carolina, approving the establishment of a branch at 158 South Main Street.	1
Letter to The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, approving the establishment of a branch at 1444-46 Passyunk Avenue.	2
Letter to Bank of the Commonwealth, Detroit, Michigan, approving the establishment of a branch in Plymouth Township and commenting on the bank's capital position.	3
Letter to the Department of Justice complying with its request for the 1965 report of income and dividends of Commerce Union Bank, Nashville, Tennessee.	4
Letter to the Chairman of the Conference of Presidents approving a plan to coordinate with Medicare the health insurance program for retirees of Federal Reserve Banks.	5
Letter to Counsel for First National City Bank, New York, New York, reaffirming, in the light of current circumstances, the Board's 1965 interpretation to the effect that the prohibitions of section 32 of the Banking Act of 1933 would not apply to the bank's proposed commingled investment account.	6

3/30/66

-3-

With respect to Item No. 6, question was raised as to the reply to be made to a March 22, 1966, letter from Chairman Patman of the House Banking and Currency Committee to Chairman Martin, with copies to other members of the Board, in which Mr. Patman restated his objections to the Board's 1965 interpretation and asked that the Board reassess its earlier position in the light of the order recently issued by the Securities and Exchange Commission. During discussion it was suggested that the answer make clear that the Board had reconsidered the question and was satisfied with its interpretation of the law as now on the books, and that any other resolution of the problem would appear to require new legislation. There was agreement with such an approach, and it was understood that a reply would be prepared on this basis. A copy of the letter in the form in which it was subsequently transmitted to Chairman Patman is attached as Item No. 7.

Reports on competitive factors. Unanimous approval was given to the transmittal of a report to the Comptroller of the Currency on the competitive factors involved in the proposed consolidation of Worcester County National Bank, Worcester, Massachusetts, and Webster National Bank, Webster, Massachusetts, in a form in which the conclusion read as follows:

While there is no significant competition existing between Worcester County National Bank, Worcester, Massachusetts, and Webster National Bank, Webster, Massachusetts, the proposed consolidation would eliminate the only locally headquartered commercial bank in Webster, while enhancing in size the bank that now is some two and one half times larger than its closest commercial bank competitor. The net effect on competition of an increase in the present high degree of concentration of commercial bank resources clearly would be adverse.

3/30/66

-4-

A report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed acquisition of certain assets and assumption of certain liabilities of Farmers Savings Bank, Princeton, Iowa, by Le Claire State Bank, Le Claire, Iowa, was approved unanimously for transmittal. The report stated that the proposal would not have adverse competitive effects.

Termination of Form FR 728 (Item No. 8). A distributed memorandum from the Legal Division and the Division of Research and Statistics dated March 28, 1966, contained the recommendation that no attempt be made to renew with the Bureau of the Budget the expired authorization for Form FR 728, which persons engaged in the business of extending credit (other than banks subject to Regulation U and creditors subject to Regulation T) were required to file within 90 days of their first extension of credit for the purpose of purchasing or carrying securities registered on a national securities exchange. The memorandum also recommended that appropriate steps be taken to terminate the requirement for use of this form.

During discussion it was brought out that the form was originally designed primarily for the purpose of making a one-time survey, which survey was completed in 1960. For reasons stated, supplementary information provided through subsequent filings had not proven of great value, and compliance with the reporting requirement had been unsatisfactory.

Accordingly, the termination of the reporting requirement was approved unanimously, effective March 30, 1966. A copy of the termination

3/30/66

-5-

notice, in the form in which it was transmitted to the Federal Register, is attached as Item No. 8.

Compounding of interest (Item No. 9). At yesterday's meeting of the Board consideration had been given to a draft notice of proposed rule making, distributed with a memorandum from the Legal Division dated March 17, 1966, the purpose of which would be to amend the Supplement to Regulation Q, Payment of Interest on Deposits, so as to permit compounding of interest on any basis at the maximum permissible rate.

During yesterday's discussion Governor Mitchell suggested supplemental language, and a revised draft notice of proposed rule making intended to reflect his suggestion had now been distributed. The revised draft would continue to state: "In calculating the rate of interest paid, the effects of compounding of interest may be disregarded." To this would be added the following: "A member bank that elects to compound interest--either at the maximum permissible rate or at a lower rate--shall state the basis of compounding, such as quarterly, monthly, weekly, daily, or continuously, in every advertisement, announcement, solicitation, and agreement relating to the rate of interest paid on deposits."

Governor Mitchell now suggested substitution of the word "whether" for the words "such as" in the second sentence, and also insertion of the word "semi-annually." Asked whether it was his intent to specify every type of compounding that would be permitted, he responded

3/30/66

-6-

in the affirmative. The suggested language, he said, should provide enough variety so that every interest would be satisfied. It would minimize misunderstanding as to the terms of agreements between banks and depositors by saying that a bank could compound interest on any one of the indicated bases and no other.

Mr. Hackley said it had been his impression that the Board wanted to permit member banks to compound interest on any basis they desired, provided that the basis of compounding was specifically stated. Under the revised draft notice of proposed rule making, as amended by Governor Mitchell's comments at today's meeting, the range of flexibility for compounding of interest would be somewhat restricted.

Governor Maisel indicated that he would prefer the revised draft notice without the additional changes suggested today. He would want to allow flexibility.

Governor Robertson said that, taking the language as a whole, he concluded that a bank would be able to compound interest on any basis it desired and that if the compounding, for example on a daily basis, meant that the actual rate of interest was slightly in excess of the maximum rate stated in Regulation Q, there would be no objection. However, the bank would have to state specifically the basis on which interest was being compounded.

Mr. Hackley commented that the first part of the draft notice was intended to make it clear that 4 per cent on savings deposits, for

3/30/66

-7-

example, was the simple maximum rate of interest. If compounding daily would result in a rate slightly in excess of 4 per cent, the bank would not be in violation of the regulation.

Governor Daane expressed the view that the Board should not permit banks to compound in such manner as to result in their paying more than the maximum rate of interest specified in the regulation. He would not look with favor on letting banks get into a competitive race by using a compounding device that allowed them to pay more than the stated ceiling rate.

Mr. Hackley noted that this posture would be more restrictive than the present regulation. In reply to a question he verified that under the present regulation a member bank could compound interest on any basis that it desired, provided the amount of interest paid did not exceed the amount that would be paid if interest was compounded at the specified maximum rate on a quarterly basis.

At the conclusion of the discussion Chairman Martin observed that if the members of the Board were no closer together in their views than appeared to be the case from the comments this morning, probably the Board should not take any action. However, he suggested that the revised draft notice of proposed rule making might be transmitted to the Comptroller of the Currency and the Federal Deposit Insurance Corporation in order to obtain their views before making any final decision.

There was agreement with this procedural suggestion. A copy of the letter subsequently sent to the Comptroller is attached as Item No. 9;

3/30/66

-8-

the letter sent to the Federal Deposit Insurance Corporation was similar in form.

Processing of merger and holding company applications. There had been distributed a draft of letter to the Presidents of the Federal Reserve Banks calling attention to the fact that the Federal Reserve System had been taking too long to process bank merger and bank holding company applications. The letter would state that measures were being taken to expedite the portion of the processing that occurred in Washington, and the Reserve Banks would be requested to take those steps necessary to strengthen resources, streamline procedures, and assure the availability and utilization of the most competent personnel in order that the System could fulfill its responsibilities in this important area. The draft would then refer to the Board's letter of December 20, 1962, which had commented on the same problem in terms that decisions should be based on the most accurate factual data and the best analytical approach possible. The proposed letter would indicate that while some of the memoranda from the Reserve Banks had since improved in quality, considerable room for improvement remained, and that the Board believed additional specialization at most Reserve Banks was essential. To this end, the letter would urge that each Reserve Bank select as many highly qualified persons as considered necessary, compensate them appropriately, and train them so that they could become highly proficient in these subjects. The suggestion would be made that Banks might want to

3/30/66

-9-

have specialists spend a period of time at the Board's offices working on actual applications and learning the problems encountered by the Board and its staff. The goal would be to submit memoranda so complete, thoroughly objective, factually correct, and legally sufficient as to provide all the information necessary for a sound judgment; however, it would be emphasized that this did not necessarily mean more extensive memoranda. If memoranda were so prepared, it would be unnecessary for the Board's staff to augment them more than nominally. The Reserve Banks would further be requested to exert every effort to prepare and submit memoranda in not more than 30 days from the date applications were received.

In opening the discussion Governor Mitchell stated that he felt there was a definite need for improvement in the quality of material coming to the Board, but that he doubted whether the sending of the proposed letter was the way to achieve this objective. He had long felt that there should be an abbreviated form of application that would impose a minimum of burden on the applicant and yet would supply all of the information needed in the majority of cases. In many instances he had found the documentation far more extensive than warranted by the circumstances. A request to the Reserve Banks to enlarge staff to perform a function that was not adequately described seemed to him to work in the wrong direction. The aim should be to slim down activities in this area rather than to enlarge them.

3/30/66

-10-

Governor Daane commented that he, too, would like to have better memoranda from the Reserve Banks. The quality was not uniform from Bank to Bank. This did not mean that the memoranda should necessarily be more extensive, but they should be in such shape that the Board's staff would have to add to them only nominally rather than to duplicate the work.

Governor Mitchell observed that in certain districts there were few merger or holding company applications. In those instances it would not seem appropriate to set up the kind of staff that seemed to be implied in the proposed letter. An analysis should be made of the workload at the respective Banks.

Governor Robertson said he did not think there was any real conflict in the thinking of the members of the Board. What Governor Mitchell was aiming for was the same thing that every other member of the Board was seeking. The fact was that to get the sort of job desired there must be sufficient trained personnel. It would not be appropriate to set up a whole corps of trained people in a district that averaged only one merger a year, only as many people as necessary. But there should be staff in each district satisfactorily equipped to handle whatever applications arose in the best way possible. The proposed letter would simply point out that the Board wanted to have the best kind of job done and that it wanted to have people assigned to the work who were well equipped. The letter would also suggest ways and means of training such people.

3/30/66

-11-

Governor Maisel suggested that it might be desirable to set up a small task force to reexamine the whole question, including revisions in the application forms and the manner in which applications were processed. It might be decided, from such a review, to propose to certain Reserve Banks that they call on the Board's staff for assistance as cases arose.

Chairman Martin then commented that he sensed a sufficient difference in emphasis among the members of the Board to make him feel that it might be desirable to meet with the Presidents of the Reserve Banks before sending the proposed letter in order to have a general discussion with them.

Governor Mitchell remarked that he concurred in most of what Governor Robertson had said. Governor Robertson wanted the Board to have the best information possible, but no more than was needed, and he (Governor Mitchell) agreed. This was probably as important as having too little information. Governor Mitchell went on to say that before suggesting to the Presidents that they enlarge their staffs, perhaps the Board should look at its own operations and decide whether the application forms were too elaborate. When the Board satisfied itself that the application forms were in order, then it might be desirable to talk with the Presidents, but he did not think that point had yet been reached.

Chairman Martin said he regarded the proposed letter as being designed essentially to bring about a speeding up of the whole process.

3/30/66

-12-

At present the System was not making a very good showing timewise. He had been getting an increasing number of complaints about time taken to decide cases.

Governor Shepardson noted that there had been in process for a couple of years a revision of the holding company application form. The revision was now just about ready to be brought before the Board for consideration. Also, a revision of the bank merger application form had been fairly well worked out, but the matter was being held up temporarily in an attempt to reach an agreement with the Federal Deposit Insurance Corporation.

Governor Mitchell then suggested laying the matter over until the Board had seen the revised application forms.

Mr. Solomon noted that there was a problem in trying to shorten the application forms and also curtail staff work. The purpose of a longer application form was to require the applicant to develop information. It would seem desirable to relieve the burden on the applicant, but this was not entirely consistent with the thought of more expeditious processing.

Governor Mitchell commented that this touched on a question that had troubled him for some time, namely, self-serving on the part of the applicant. Some of the information furnished could be verified, but other parts of it could not. He repeated that in the majority of cases he felt that too much information was provided, and in a minority of cases he felt that there was not enough information.

3/30/66

-13-

Agreement was then expressed with a suggestion by Chairman Martin that the matter be held over, with the understanding that the revised application forms would be presented to the Board for consideration as promptly as possible.

Work measurement program (Items 10 and 11). There had been distributed a memorandum from Mr. Farrell dated March 22, 1966, referring to a work measurement training program offered to the Federal Reserve Bank of St. Louis, alone or in conjunction with one or more other Reserve Banks, by the firm of Booz, Allen, and Hamilton, Inc., which had conducted a similar program at the Dallas Bank last year. The Board of Directors of the St. Louis Bank had authorized acceptance of the proposal by the St. Louis Bank.

Mr. Farrell pointed out that the Division of Bank Operations, charged with the responsibility of submitting reports of a quality to enable the Board to formulate opinions on the effectiveness of operations of the Reserve Banks and branches, had been depending on functional expense reports and field surveys to fulfill this obligation. The Division, however, was hampered by the lack of acceptable standards for measuring performance, and for some years it had been attempting, without success, to recruit a specialist in the techniques of work measurement. Because of this interest in the application of work measurement techniques to Reserve Bank operations, a member of the Division's staff had observed the survey at the Dallas Bank. So impressive were the results that Mr. Farrell had

3/30/66

-14-

pursued with Booz Allen the possibilities of a System-wide training program. About the time a tentative program had been outlined, it was discovered that the St. Louis Bank had independently undertaken an operations evaluation program and had run into difficulties because of lack of competence in the work measurement area. A somewhat similar situation existed at the Kansas City Bank. Subsequently, a meeting between representatives of the Division of Bank Operations, the St. Louis and Kansas City Banks, and Booz Allen was arranged, and the result of the meeting was reflected in a letter dated February 24, 1966, to President Francis from Booz Allen offering to develop a training program for St. Louis alone or in conjunction with other interested Banks.

Mr. Farrell stated that under the proposed work measurement program performance in nearly all areas of a Bank would be measured against predetermined standards and the results expressed as "effectiveness ratings." The Division was hopeful that these effectiveness ratings could be the first step toward the development of inter-Bank comparisons for inclusion in the functional expense reports. The Division was also keenly interested in the opportunity to train one or more staff members in work measurement techniques.

Accordingly, the Division of Bank Operations recommended that (1) a letter be sent to the Presidents of all Federal Reserve Banks, except St. Louis and Dallas, stating the Board's interest in a program of this kind and asking whether they would be interested in the current

3/30/66

-15-

proposal and, if not, the reason; and (2) a letter be sent to President Francis indicating the gratification of the Board at the acceptance of the proposal by the St. Louis Bank, but suggesting that the execution of any contract be deferred until the Board had had an opportunity to hear from other Reserve Banks. Drafts of letters were submitted with Mr. Farrell's memorandum.

Governor Mitchell said he thought this was a program that ought to be encouraged. However, he had two questions. The first related to the fact that there was no competitive bidding procedure involved in the proposed contract. If there was competitive bidding, Booz Allen would come in with the advantage of having done the job at Dallas. However, a throwing open of the project for bids from several firms might protect the System from criticism. His second question was how to persuade the managements of the other Reserve Banks to go along with this kind of proposal. In his opinion the proposed letter represented quite a harsh selling approach. Another approach might be simply to advise the Banks that St. Louis was going ahead with this project, and to include an edited copy of Mr. Farrell's memorandum to the Board for their information and consideration.

Governor Daane expressed the view that participation should be on an optional basis. He would change the tone of the letter somewhat.

On the first question raised by Governor Mitchell, Governor Maisel said that since it was known that Booz Allen was qualified, he

3/30/66

-16-

did not think it would be necessary to call for bids. He noted that the Dallas Bank had obtained proposals from several companies originally. Also, there was a quality factor to be taken into account.

Chairman Martin inquired whether there was any reason why the Board should not simply let the St. Louis Bank go ahead with its project, and in reply Mr. Farrell cited certain advantages that would be involved if several Reserve Banks proceeded jointly, particularly from the standpoint of the training phase of the program.

Asked about the reaction of the Kansas City Bank, Mr. Farrell said that there appeared to be some difference of opinion within the ranks of top management. As to the other Reserve Banks, he had had no indication except from the Philadelphia Bank, where there were understood to be some reservations. He thought it probable that the program would attract three or four Reserve Banks on the first go-around. He would expect the program to be accepted by other Banks at a later stage.

Governor Brimmer said that while he agreed with the proposition that the Board should not be too harsh in selling the program, nevertheless it would be unfortunate if the Reserve Banks were not made aware of the Board's interest in the matter. He felt that the Board should show its interest in the project and push it to the extent consistent with obtaining voluntary cooperation.

Mr. Farrell agreed with this view. The program would not work without the enthusiastic cooperation of top management, yet it should

3/30/66

-17-

be borne in mind that the Board had a supervisory responsibility and that its staff did not presently have the necessary measurement tools.

Chairman Martin expressed the opinion that the Board should stand wholeheartedly behind the program, but that it should be careful to avoid taking over the management of the Reserve Banks. He noted the position of the Reserve Bank directors and the desirability of making them feel that they were a part of the whole System operation. If the directors got the impression that things were going to be done entirely from Washington, the System would be likely to experience a steady deterioration in director participation in its affairs. He suggested that the program be attacked on a piecemeal basis, recognizing that some Banks probably would have to sell themselves on the program, on the basis of the way they saw it develop. He would suggest sending out a letter to determine whether any other Reserve Banks wanted to join the St. Louis Bank, but only going that far.

There followed suggestions by members of the Board for changes in the proposed letter in line with the comments that had been made.

In the course of this discussion Governor Robertson expressed agreement with Governor Maisel that since the Booz Allen firm had already been used for a program of this kind at the Dallas Bank, and since the firm had established qualifications, it would not seem essential in this instance to ask for competitive bids. There was no indication of a contrary view on the part of other members of the Board.

3/30/66

-18-

Various suggestions for changes in the draft letter then being agreed upon, unanimous approval was given to a letter to the Presidents of all Federal Reserve Banks except St. Louis and Dallas in the form attached as Item No. 10. Approval also was given to a letter to President Francis in the form attached as Item No. 11.

In a postscript to the discussion Chairman Martin commented that he sensed a need for more meetings of the Board with the Reserve Bank Presidents, even recognizing the time that was involved in holding such meetings. He noted that letters were likely to be construed quite differently from comments made in face-to-face discussions. He believed that much more could be done in selling projects of the kind under consideration through personal discussion than through writing letters.

Various members of the staff not concerned with the following topics withdrew from the meeting at this point.

Travel regulations. At the Board meeting on January 18, 1966, question was raised as to the feasibility and desirability of developing a set of travel regulations that could be used by the Board and the Federal Reserve Banks alike. In order to explore the question, letters were sent to the respective Reserve Banks requesting them to submit copies of their current travel regulations along with any comments they might care to make on the general subject.

There had now been distributed a memorandum from Governor Shepardson dated March 28, 1966, attaching a memorandum of March 25

3/30/66

-19-

from Messrs. Farrell and Kakalec in which the regulations of the various Reserve Banks were compared and the comments of the Banks were summarized.

Governor Shepardson noted that in some respects the Reserve Bank regulations were similar, while in other respects there were rather significant differences from one Bank to another. After citing some of the principal differences, he observed that there were three basic questions for the Board to determine before proceeding further. The first was whether the Board wanted to encourage the development of uniform travel regulations for the Federal Reserve Banks. If so, a System committee conceivably could work out some program. The second question was whether Reserve Bank regulations should be made to conform more closely to the Board's travel regulations. At present there were a number of variations, and on some occasions Board travelers were at a comparative disadvantage. If an effort was made to work toward uniformity, the third question was whether to move toward the Reserve Bank approach or toward the approach embodied in the Board regulations.

Governor Maisel suggested that the idea of moving toward uniformity be dropped for the time being. The review that had been made did not indicate to him that the differences among Reserve Bank regulations were so significant that it would be worthwhile to undertake a large-scale effort to obtain agreement in detail.

Chairman Martin said he was also rather inclined toward that view.

3/30/66

-20-

Governor Shepardson then said that if this was the consensus it should be recognized that there were differences in the general run of Bank regulations and the Board regulations. The question was whether to revise the Board regulations in order to move toward closing the gap.

Chairman Martin said he thought it would be desirable to make a study of the Board's regulations with that objective in mind, and then to let the Board have a look at any proposals.

Governor Mitchell commented that while he would not favor a full-scale study, he felt that greater uniformity between the Board and Bank regulations, and also among the Bank regulations, would be desirable in principle. In his opinion there was too much disparity at present. There appeared to be some feeling among the Reserve Banks that their expense accounts ought to look like those of commercial banks. As he saw it, the Reserve Bank regulations ought to gravitate toward Governmental practices. While he would hesitate to recommend making a high-level issue out of the matter, at the same time he felt that perhaps the question should be kept under review for a period of time, looking toward the possibility of gradually achieving some greater degree of uniformity within the System.

Governor Daane commented that he felt the Reserve Banks were falling behind in their salary structures, at least in the upper brackets, and that they were falling behind in the caliber of people obtained. He would not want to move, through the medium of the travel regulations,

3/30/66

-21-

in a direction that would marginally discourage competent people from moving to the Reserve Banks.

Governor Brimmer commented that he shared the view expressed by Governor Maisel. He saw in the work management program (previously discussed at this meeting) the kind of issue where the Board might want to use its credits with the Reserve Banks to press for uniformity, but he thought it was not worth using up any credits on the issue of the travel regulations. Therefore, he would discard the idea of attempting to work out uniform regulations.

Governor Shepardson then commented that in light of the views expressed the remaining question seemed to focus on the Board's travel regulations. There were at least two points where these regulations were at significant variance with the general run of Bank regulations. One difference was that the Board's regulations veered toward the standard Government regulations in terms of use of less than first-class air transportation. The Board had several months ago made a move in that direction, but considerable adverse reaction had been noted. Second, there was the difference arising out of the fact that Reserve Banks reimbursed the cost of hotel bills and provided a per diem to cover other expenses, including meals. The Board might want to move toward uniformity in those two areas.

Chairman Martin suggested that the Board's regulations be reviewed with this in mind and recommendations brought back to the Board, and it was agreed that this would be done.

3/30/66

-22-

Retirement System--disposition of excess earnings. A distributed memorandum from the Division of Personnel Administration dated February 24, 1966, dealt with the fact that the Board of Trustees of the Retirement System of the Federal Reserve Banks had requested an indication from the Board of Governors as to whether it would approve in principle a proposed plan for the distribution of earnings (\$7.2 million as of February 28, 1965, the end of the fiscal year) not required for actuarial purposes and reserve accounts, prior to submitting the matter to the Internal Revenue Service.

The proposal contemplated that such excess earnings at the end of each fiscal year would be allocated initially to the Board Plan and the Bank Plan on a pro rata basis. As to the Bank Plan, the proposal would provide for the distribution of excess earnings to pensioners and their beneficiaries, to active members, and to the employing Banks by the allocation of such earnings on a pro rata basis to the Retirement Reserve Account, the Annuity Accumulation Account, and the Pension Accumulation Account. The entire amount of excess earnings allocated to the Board Plan would be credited to the Board Plan Pension Accumulation Account and would result in a lowering of the Board's contribution. (Board employees who were members of the Board Plan would not share in the distribution since retirement allowances and employees' contributions follow those fixed under the Civil Service Retirement Plan.)

The Division of Personnel Administration recommended that the proposed distribution of excess earnings not be approved. It pointed

3/30/66

-23-

to the fact that the Reserve Banks had provided approximately \$36 million in special assessments to fund additional benefits since inception of the Retirement System. In addition the Banks had recently assumed the expense of retirement contributions between the old (\$4,800) and new (\$6,600) base for social security. The Division suggested that special attention be directed toward reducing the rate of Bank contributions.

The Division cited the following possibilities for improving the employee's retirement position: early retirement with less than full actuarial discount, and supplementation of retirement allowances for pensioners. These were judged to be weak points in the present system when compared to the trends in commercial and industrial retirement plans as shown by recent studies.

In a distributed memorandum dated March 3, 1966, Governor Maisel recommended that the Board approve the proposal suggested by the Trustees of the Retirement System, with the proviso that the 52 per cent of the Bank Plan share that would be distributed to the employing Banks be retained as a special reserve to meet requirements for additional benefits that were likely to be negotiated in the future. It seemed to him that the proposed distribution plan was equitable and that it might somewhat reduce pressure on the Banks to include in future benefits adjustments for changes in the cost of living. The critical question to be decided was whether or not the active employees and the pensioners were

3/30/66

-24-

to be given credit for the current earnings of the fund instead of merely the guaranteed 3.5 per cent. (The current yield on invested funds was 4.44 per cent.) It seemed to him more equitable for the beneficial owners of the fund to receive existing yields than to have the amounts earned through investments used to reduce the Banks' liabilities. He had checked carefully to make certain that the earnings were actually excess and that they arose entirely from the increased rate of return on investments and not from actuarial computations. Originally, he pointed out, excess investment earnings were used to make up past losses. Additional amounts were then used to accumulate a reserve of 8-1/2 per cent against investments in case there was a need to equalize future income and to make up for possible investment losses. The existing excesses and the future ones considered in the memorandum from the Personnel Division were over and above those that might be required to maintain the reserves.

In the discussion that occurred at this meeting, Governor Maisel said that he originally had some question whether these were really excess earnings. He had gone into this with the Actuary in some detail, and he was now satisfied on that score. The difference between him and the Personnel Division focused on where the equity lay in this situation. At the moment the fund was earning at a rate of 4.44 per cent as opposed to the guaranteed rate of 3.5 per cent. In the fund there were three parts: first, the part contributed by the Reserve Bank; second, the part

3/30/66

-25-

contributed by the individuals; third, the part originally contributed by the individuals and by the Banks but placed in a separate fund on an actuarial basis as the individuals retired. The suggestion here was that the parts belonging to the individuals and the retirees be credited at the current earning rate rather than the guaranteed earning rate. The Division held the view that the employing Banks had paid to fund the cost of additional benefits and therefore it was not necessary to credit to the individuals at the current earning rate because they were getting a good deal anyway. In his view, however, the revisions of benefits involved essentially a collective bargaining process. As he saw it, the Federal Reserve Retirement System was still not as good for the employees as Civil Service.

Mr. Johnson commented that it should be taken into account that included in the amounts to be distributed were profits on investments. More was involved than the difference between the interest rate credited and the interest rate actually earned. Basically the proposed plan would distribute profits. Mr. Johnson conceded that the proposed scheme of distribution was an equitable one, probably about as good as could be worked out. The real question was whether any distribution should be made. The arguments for making a distribution were that the funds were available and should be used to provide additional benefits to the employees, that the members of the Retirement System should share in the favorable investment experience, and that pensioners and their beneficiaries

3/30/66

-26-

should receive periodic increases in their pensions. The main arguments against a distribution included the fact that in the past the Retirement System had not always operated at a profit; until 1952 it had operated pretty much at a deficit. Since then the Reserve Banks had paid the cost of funding all of the additional benefits. The Banks had paid in about \$36 million above and beyond the rate of contributions for the benefit of the employees. In addition, the Banks recently assumed the expense of retirement contributions between the old and the new base for social security. Further, the higher-salaried employees would be getting the principal benefit of any future earnings distributed. There was also the question involved in distributing to current employees and retirees the accrued earnings on money contributed by employees in the past. Additionally, the payments to retirees was not far behind payments to Civil Service retirees. The recently approved change in benefits had placed Federal Reserve employees in a rather favorable position. Similarly, it should be recalled that an 80 per cent limitation had been imposed on retirement allowances, the Board having considered this warranted to hold the maximum allowance to an amount equivalent to that available under the Civil Service Retirement System. Any additional retirement income resulting from distribution of earnings would not be subject to the 80 per cent limitation.

As noted in the memorandum, Mr. Johnson concluded, there were two areas where the Federal Reserve Retirement System suffered by

3/30/66

-27-

comparison with Civil Service. It was believed that these two areas should be studied.

Mr. Sprecher called attention to the importance of the Board's decision, which he described as involving a matter of principle. The terms of the Retirement System trust contract made no provision for distribution of earnings; the employees received the benefits for which they had contracted. If this were a private trust, there might be no strong reason for not making such a distribution, but in the case of the Federal Reserve Retirement System a quasi-governmental relationship was involved. Unfortunately, the nature of this relationship was not appreciated by all of the participants. Further, the earnings proposed to be distributed had arisen from administration of the trust through methods that involved expense to the Reserve Banks, and the distribution would tend to favor those in the higher salary brackets.

Mr. Sprecher expressed the view that several Reserve Bank Presidents, if polled individually, would not support the earnings distribution proposal. In the past, Presidents with exhaustive knowledge of the Retirement System had taken firm positions against such distributions. It might also be borne in mind that two of the members of the Board would stand to gain by adoption of the current proposal should they return to the service of Reserve Banks within a certain period of time.

There followed discussion of the relative advantages of the Federal Reserve and Civil Service retirement systems to their members,

3/30/66

-28-

after which Governor Maisel commented that unless the Federal Reserve Retirement System was conceived of as a trust operated on a cooperative basis for the benefit of its members, it would appear that investment of assets might as well be confined to Government securities. He also said that if there was a feeling that some of the Reserve Bank Presidents would not support the current proposal individually, despite the fact that they had voted for it in the Trustees' meeting, he would be willing to go back and ask for a poll of the Presidents. Originally, he said, he had entertained some doubts about the proposition himself, but he no longer had those doubts. He noted that one of the points made was that this action would tend toward rectifying the two principal existing areas of deficiency in the Retirement System, as described in the Personnel Division's memorandum.

Further discussion ensued relating to the operation of the reserve accounts, after which Chairman Martin observed that a serious decision was involved and that, while the issues had been pointed up well, it would seem advisable to study the matter carefully before any action was taken.

Governor Mitchell indicated that he proposed to abstain from voting on the question, but he urged that this controversial issue of long standing be decided one way or the other. Governor Daane also indicated that he proposed to abstain from participating in the decision.

It was then agreed to hold the matter over for further study by members of the Board.

3/30/66

-29-

Request for letter to Chase Manhattan Bank. Mr. Hackley referred to the Board's letter of November 3, 1965, to The Chase Manhattan Bank (National Association), New York, New York, relating to Chase's request for a "section 301" determination, or in lieu thereof a voting permit, in connection with its proposal to acquire shares of Liberty National Bank and Trust Company, Buffalo, New York. The letter indicated that the Board was not favorably disposed, but before reaching a final decision would allow Chase to submit further arguments. The Board also expressed the view that the proposal would appear to violate provisions of Federal law prohibiting the establishment and operation of branch offices by national banks. Subsequently, the Comptroller of the Currency, in a letter to the Board dated February 18, 1966, expressed the view that the Board, having taken this position, was estopped from approving applications involving the acquisition of bank stocks by non-bank holding companies in New York for the stated reason that such acquisitions "would enable State banks to circumvent the prohibitions of the branch banking statutes of the State of New York." In order to refute the Comptroller's views, reference to this correspondence had been included in the Board's statement of March 25, 1966, in connection with its approval of the Security New York State Corporation holding company application.

A request for copies of the November and February letters had now been received from counsel for the opposing banks in the Whitney

3/30/66

-30-

Holding Corporation case, and Mr. Hackley pointed out that other requests would doubtless be received. He recalled that the Board, taking into account the fact that a newspaper had already published an article on the Comptroller's letter, approved at the meeting on March 4, 1966, furnishing copies of the letter to any interested person upon request. In connection with the Board's letter of November 3, however, Mr. Hackley noted that the views contained therein were tentative. In the circumstances, he questioned whether copies should be released.

Following discussion, it was agreed that copies of the letter to Chase Manhattan Bank should not be made available to the public at this time, but that copies of this letter and the letter from the Comptroller would be sent to the Federal Reserve Banks for their information.

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 Philadelphia (copy attached as Item No. 12) regarding arrangements for the assignment to the Board's Division of Examinations of Louis N. Sanfelice, an assistant examiner for the Bank, for a period of approximately three months beginning April 18, 1966.

Letter to the Federal Reserve Bank of San Francisco (copy attached as Item No. 13) approving the appointment of Arthur E. Pine as assistant examiner.

Memoranda recommending the following actions relating to the Board's staff:

3/30/66

-31-

Appointment

Andrew T. Radigan, Jr., as Design Specialist, Division of Data Processing, with basic annual salary at the rate of \$7,097, effective the date of entrance upon duty.

Transfer

Genevieve G. Duarte, Data Control Clerk, Division of Data Processing, from the Operations Section to a newly-established position in the Financial Statistics Section, with no change in basic annual salary at the rate of \$6,378, effective April 10, 1966.

Acceptance of resignation

William R. Smith, Laborer, Division of Administrative Services, effective at the close of business March 30, 1966.



Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
3/30/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 30, 1966



Board of Directors,
The Peoples Bank,
Bishopville, South Carolina.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Peoples Bank, Bishopville, South Carolina, of a branch at 158 South Main Street, Bishopville, South Carolina, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

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

Item No. 2
3/30/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 30, 1966

Board of Directors,
The First Pennsylvania Banking
and Trust Company,
Philadelphia, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, of a branch at 1444-46 Passyunk Avenue, Philadelphia, Pennsylvania, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3
3/30/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 30, 1966

Board of Directors,
Bank of the Commonwealth,
Detroit, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Bank of the Commonwealth, Detroit, Michigan, of a branch at 40855 Ann Arbor Road, Plymouth Township, Wayne County, Michigan, provided the branch is established within six months from the date of this letter.

It is the Board's understanding that plans are being formulated to strengthen your bank's capital position.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

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

Item No. 4
3/30/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 30, 1966.

Mr. Donald F. Turner,
Assistant Attorney General,
Antitrust Division,
U. S. Department of Justice,
Washington, D. C. 20530

Dear Mr. Turner:

In your letter of March 22, 1966, you requested copies of Report of Income and Dividends for the year ended December 31, 1965, for the following banks in Nashville, Davidson County, Tennessee:

Third National Bank in Nashville;
First American National Bank; and
Commerce Union Bank.

There is enclosed the 1965 Report of Income and Dividends for Commerce Union Bank. As you know, the other banks are nationally chartered institutions and your request for similar reports of those banks should be addressed either to the banks themselves or the Comptroller of the Currency.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure

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

Item No. 5
3/30/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 1, 1966.

Mr. Edward A. Wayne,
Chairman, Conference of Presidents,
Federal Reserve Bank of Richmond,
Richmond, Virginia. 23213

Dear Mr. Wayne:

The Board of Governors approves the coordinated health insurance program for retirees of the Federal Reserve Banks, effective July 1, 1966, recommended by the Conference of Presidents and reported in Mr. Bopp's letter to the Board dated March 4, 1966, as follows:

The program includes:

1. Medicare-Part A.
2. "Wrap-around" coverage for Medicare-Part A as provided by local Blue Cross plans to include, where applicable, the following:
 - a. The \$40 cash deductible,
 - b. Room, board, and ancillary benefits to the extent required to provide coverage, insofar as possible, equal to that in effect prior to July 1, 1966, and
 - c. World-wide coverage in accordance with the standard offering of each local Blue Cross plan.
3. Medicare-Part B, with the retiree:
 - a. Paying the monthly premium, and
 - b. Paying the annual \$50 deductible, which, in turn, would be credited toward the \$200 deductible of major medical coverage.

Mr. Edward A. Wayne

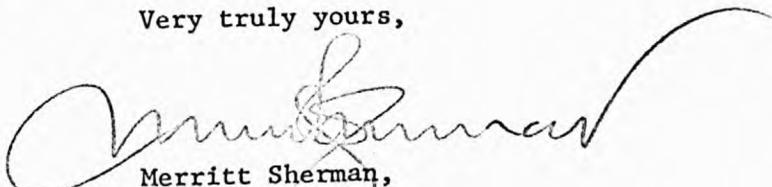
-2-

4. Integrated major medical insurance program as provided by the Prudential Insurance Company of America, whereby all surgical-medical charges not covered by Medicare-Part B would be covered by the major medical contract.
 - a. World-wide coverage for surgical-medical benefits would be provided according to a schedule established by the Prudential. The schedule would be uniform for all Federal Reserve Banks.
5. The premium cost of the "wrap-around" coverage for Medicare-Part A and the integrated major medical coverage would be paid by the Banks.

It is further understood that this approval includes the assumptions contained on page 3 of the "Summary of Report of the Subcommittee on Health Insurance of the Presidents Conference Committee on Personnel," dated February 17, 1966.

Advice of this action is being sent to the President of each Federal Reserve Bank today.

Very truly yours,



Merritt Sherman,
Secretary.

cc: Mr. Marcus A. Harris,
Chairman, Retirement Committee,
Retirement System of the Federal Reserve Banks,
Federal Reserve Bank of New York,
New York, New York. 10045

Mr. William T. Cunningham, Secretary,
Conference of Presidents,
Federal Reserve Bank of Richmond,
Richmond, Virginia. 23213

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

Item No. 6
3/30/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 31, 1966

Mr. William Everdell,
Debevoise, Plimpton, Lyons & Gates,
320 Park Avenue,
New York, New York: 10022

Dear Mr. Everdell:

This refers to your telegrams of March 11, 1966, and March 14, 1966. You have raised the question whether certain provisions contained in an Order of the Securities and Exchange Commission dated March 9, 1966, as amended, under which 40 per cent of the members of the committee of the commingled investment account proposed to be established by First National City Bank of New York, New York, New York, must be unaffiliated with the bank, would require a change in the conclusion expressed by the Board in its published interpretation dated September 29, 1965, that the prohibitions of section 32 of the Banking Act of 1933 would not apply to the proposal.

The Board has reviewed the matter in the light of the Commission's Order and Opinion and agrees with the conclusion apparently reached by the Commission that having 40 per cent of the members of the committee unaffiliated with the bank will not prevent the proposed account from being operated under the effective control of the bank. Accordingly, such a change in the proposal will not, in and of itself, require a change in the conclusion expressed in the Board's interpretation mentioned above. It should be borne in mind, however, that the Board's conclusion was based on its understanding that the account would be, in operation, "nothing more than an arm or department of the bank", and any change that would tend to alter this state of affairs or remove the account from the effective control of the bank or make it more than simply an aspect of the bank's fiduciary function, would require further review of the matter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 7
3/30/66

OFFICE OF THE CHAIRMAN

April 1, 1966

The Honorable Wright Patman, Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington, D. C. 20515

Dear Mr. Chairman:

This refers to your letter of March 22, 1966, in which you discussed certain aspects of the proposal by First National City Bank, New York, to operate a "commingled investment account" and the Board's interpretation released for publication September 29, 1965. In that interpretation, the Board concluded that effectuation of the proposal would not violate section 32 of the Banking Act of 1933.

Many of the points raised in your letter have been covered previously at some length in my letters to you of December 15, 1965, and February 4, 1966, and the enclosures with those letters. Other matters mentioned in your recent letter are within the primary responsibility of the Securities and Exchange Commission and are treated in the Findings and Opinion of the Commission that accompanied its Order of March 9, 1966. It is understood that the Commission has supplied you with copies of these documents.

The proposal in question has been considered by other interested agencies as well as the Securities and Exchange Commission and the Board. The Comptroller of the Currency, as you know, regards the proposal as a lawful activity for a national bank. The Federal Deposit Insurance Corporation favors the proposal, and the matter has been the subject of correspondence between you and the Department of Justice.

May I emphasize again, as I did in my letter of February 4, 1966, to you, that the only question before the Board in this connection was whether interlocking service relationships

between the bank and the proposed account would be prohibited by section 32 of the Banking Act of 1933. It would seem particularly undesirable for the Board to attempt to prevent a bank from entering upon a particular form of activity, such as the operation of a commingled investment account of the kind involved in the proposal of First National City Bank, by making a strained and, indeed the Board believes, improper interpretation of a collateral statute. Rather, if Congress were to conclude that banks should not engage in activities of this kind, the remedy would seem to lie within the area of new legislation.

In response to your question as to whether the changes in First National City Bank's proposal that will be required under the Order of the Securities and Exchange Commission, mentioned above, would necessitate a change in the conclusion expressed in the Board's interpretation published September 29, 1965, there is enclosed a copy of the Board's letter of March 31, 1966, responding to a similar inquiry from counsel for the bank. Your attention is also directed to the discussion on page 10 of the Commission's Opinion that accompanied its Order of March 9, 1966.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure

TITLE 12 - BANKS AND BANKING

Item No. 8
3/30/66

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. U]

PART 221 - LOANS BY BANKS FOR THE PURPOSE OF
PURCHASING OR CARRYING REGISTERED STOCKS

Forms

1. Effective March 30, 1966, section 221.51 is deleted.

2. (a) The purpose of this action is to terminate the requirement that persons (other than banks, as defined in § 221.3(k), and creditors, as defined in § 220.2(b) of this chapter (Reg. T)) who are engaged in the business of extending credit, and who in the ordinary course of business extend credit for the purpose of purchasing or carrying securities registered on a national securities exchange, shall within 90 days of the first extension of credit for such purpose file reports on Form FR 728. It seems advisable to eliminate this requirement because Form FR 728 was originally designed principally for the purpose of making a one-time survey of such lenders, and the supplementary information provided through subsequent filings has not proved sufficiently valuable to justify continuation of the reporting requirement.

(b) The notice, public participation, and deferred effective date procedures described in section 4 of the Administrative Procedure Act are now followed in connection with this amendment for the reasons

and good cause found as stated in § 262.1(e) of the Board's Rules of Procedure (Part 262), and especially because in connection with this amendment such procedures are unnecessary as they would serve no useful purpose.

(Sec. 23, 48 Stat. 901; 15 U.S.C. 78w. Interprets or applies sec. 17(b), 48 Stat. 897; 15 U.S.C. 78q).

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. 9
3/30/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 31, 1966.



Comptroller of the Currency,
Treasury Department,
Washington, D. C. 20220

Dear Mr. Comptroller:

The Board of Governors is considering whether member banks should be permitted to compound interest on time or savings deposits at the maximum permissible rate more frequently than the quarter-year intervals now permitted under Regulation Q, "Payment of Interest on Deposits".

Enclosed is a draft Notice of Proposed Rule Making with respect to (1) permitting member banks to pay interest on deposits at the maximum permissible rate compounded on any basis that the member bank may desire to adopt, and (2) requiring member banks to state the basis of compounding in every advertisement, announcement, solicitation, and agreement relating to the rate of interest paid on a deposit.

Before publishing the proposal for public comment, the Board would like to have the benefit of your views on the matter. It would be appreciated if your comments could be received by April 16, 1966.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure

D R A F T

FEDERAL RESERVE SYSTEM

12 CFR Part 217

Reg. Q

PAYMENT OF INTEREST ON DEPOSITS

Notice of Proposed Rule Making

The Board of Governors is considering amending § 217.6 (the Supplement to Regulation Q) to permit member banks to compound interest on deposits on any basis - quarterly, monthly, daily, or continuously - at the maximum permissible rate. The proposed amendment would also require member banks to state the basis of compounding in every advertisement, announcement, solicitation, and agreement relating to the rate of interest paid on a deposit. Under the present regulation, interest may be compounded on any basis a member bank may desire to adopt, but the amount of interest so compounded may not exceed the amount of interest at the maximum permissible rate when compounded quarterly. As amended, § 217.6 would read as follows:

§ 217.6 Maximum rates of interest payable on time and savings deposits by member banks.

Pursuant to the provisions of section 19 of the Federal Reserve Act and § 217.3, the Board of Governors of the Federal Reserve System hereby prescribes the following maximum rates ^{1/} of interest payable by member banks of the Federal Reserve System on time and savings deposits:

^{1/} The maximum rates of interest payable by member banks of the Federal Reserve System on time and savings deposits as prescribed herein are not applicable to any deposit that is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia.

- (a) Maximum rate on time deposits. - No member bank shall pay interest on any time deposit at a rate in excess of 5-1/2 per cent per annum.
- (b) Maximum rate on savings deposits. - No member bank shall pay interest on any savings deposit at a rate in excess of 4 per cent per annum.

In calculating the rate of interest paid, the effects of compounding of interest may be disregarded. A member bank that elects to compound interest - either at the maximum permissible rate or at a lower rate - shall state the basis of compounding, such as semi-annually, quarterly, monthly, weekly, daily, or continuously, in every advertisement, announcement, solicitation, and agreement relating to the rate of interest paid on a deposit.

The purpose of the proposed amendment is to permit member banks greater flexibility in contracting and in operations with respect to interest on deposits. Its adoption would have an insignificant quantitative effect on the maximum permissible interest that member banks may pay for the use of funds.

This notice is published pursuant to section 4 of the Administrative Procedure Act and Section 1(b) of the Rules of Procedure of the Board of Governors of the Federal Reserve System (12 CFR 262.1(b)).

To aid in the consideration of this matter by the Board, interested persons are invited to submit relevant data, views, or arguments. Such material should be submitted in writing to the

DRAFT

-3-

Secretary, Board of Governors of the Federal Reserve System,
Washington, D. C., 20551, to be received not later than , 1966.

Dated at Washington, D. C., this day of , 1966.

By order of the Board of Governors.

Merritt Sherman,
Secretary.

DRAFT

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

Item No. 10
3/30/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 1, 1966.

Dear Sir:

Enclosed is a copy of a letter dated February 24, 1966, from Booz, Allen, and Hamilton, Inc. to President Francis of the Federal Reserve Bank of St. Louis containing a proposal to develop a work measurement program either at the St. Louis Bank alone, or in conjunction with one or more other Reserve Banks. The Board has been advised that the St. Louis Board of Directors has approved acceptance of that part of the proposal pertaining to the Federal Reserve Bank of St. Louis.

The current proposal is in effect an extension of one part of the general survey made last year at the Federal Reserve Bank of Dallas by Booz, Allen, and Hamilton, Inc. There is also enclosed a copy of a staff memorandum that may be helpful as background for this proposal.

The Board recognizes that a work measurement program needs the enthusiastic support of management to be successful, and, therefore, that the decision whether or not to undertake such a program is one that should be made by the management of the individual Reserve Banks. The Board believes, however, that the possible benefits of such a program are sufficient to warrant thorough consideration of the current proposal by Booz, Allen, and Hamilton, Inc., and would like to have your comments in this regard.

The Board understands that there would be advantages in conducting some of the preliminary training sessions on a joint basis if other Banks join the Federal Reserve Bank of St. Louis

in this undertaking. Accordingly, that Bank has been asked to defer the execution of any contract until the Board has had an opportunity to hear from the other Reserve Banks.

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 typed name.

Merritt Sherman,
Secretary.

Enclosures.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT ST. LOUIS AND DALLAS WITH INFORMATION
COPIES TO ST. LOUIS AND DALLAS.

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

Item No. 11
3/30/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 31, 1966.



Mr. Darryl R. Francis, President,
Federal Reserve Bank of St. Louis,
P. O. Box 442,
St. Louis, Missouri. 63166

Dear Mr. Francis:

This refers to your letter of March 11, 1966, to Mr. Farrell advising that the Directors of your Bank have approved acceptance of the proposal by Booz, Allen, and Hamilton, Inc., dated February 24, 1966, to develop a work measurement program at St. Louis.

The Board is gratified by this action of your Directors, and would like to have one of its staff participate in the program, as mentioned in the consultants' proposal.

A copy of the Booz, Allen, and Hamilton, Inc. letter of February 24, 1966, is being sent to the other Reserve Banks for consideration and comment. Accordingly, it would be appreciated if your Bank would defer the execution of any contract for this purpose until there is an opportunity for the Board to hear from the other Reserve Banks.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 12
3/30/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 30, 1966.



Mr. Karl R. Bopp,
President,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania. 19101

Dear Mr. Bopp:

In accordance with the tentative arrangements made with Chief Examining Officer Giacobello by the Board's Division of Examinations, it is understood that your Bank will make available, for a period of approximately three months, beginning April 18, 1966, the services of Mr. Louis N. Sanfelice, an Assistant Examiner for your Bank. While in Washington Mr. Sanfelice will be assigned to the foreign banking 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. Sanfelice will be designated as a Federal Reserve Examiner.

It is understood that the Federal Reserve Bank of Philadelphia will absorb all of Mr. Sanfelice'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. Sanfelice available during this period.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 13

3/30/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 30, 1966.

Mr. A. B. Merritt, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco, California. 94120

Dear Mr. Merritt:

In accordance with the request contained in Mr. Davenport's letter of March 23, 1966, the Board approves the appointment of Arthur E. Pine as an assistant examiner for the Federal Reserve Bank of San Francisco, effective April 1, 1966.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.