

Minutes of the Board of Governors of the Federal Reserve

System on Monday, June 27, 1966. The Board met in the Board

Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Mitchell
Mr. Daane
Mr. Maisel
Mr. Brimmer

Mr. Sherman, Secretary
Mr. Broida, Assistant Secretary
Mr. Bakke, 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. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
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. Harris, Coordinator of Defense Planning
Mr. Hexter, Associate General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Koch, Deputy Director, Division of Research
and Statistics
Mr. Partee, Associate Director, Division of
Research and Statistics
Mr. Daniels, Assistant Director, Division of Bank
Operations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Thompson, Assistant Director, Division of
Examinations
Miss Wolcott, Technical Assistant, Office of the
Secretary
Messrs. Forrestal, Sanders, and Smith of the
Legal Division
Messrs. Eckert and Ettin of the Division of
Research and Statistics
Messrs. Egertson, Lyon, and Maguire of the
Division of Examinations

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

	<u>Item No.</u>
Letter to The Farmers and Citizens Banking Company, Monroeville, Ohio, approving an investment in bank premises.	1
Letter to the Bureau of the Budget regarding enrolled bill S. 3368, "To amend section 14(b) of the Federal Reserve Act, as amended, to extend for two years the authority of Federal Reserve banks to purchase United States obliga- tions directly from the Treasury."	2

Report on competitive factors. A report to the Comptroller of
the Currency on the competitive factors involved in the proposed merger
of People's Trust Company of Tamaqua, Pennsylvania, Tamaqua, Pennsylvania,
into Pennsylvania National Bank and Trust Company, Pottsville, Pennsylvania,
was approved unanimously for transmittal to the Comptroller. The conclu-
sion read as follows:

Consummation of the proposed merger of Pennsylvania
National Bank and Trust Company, Pottsville, Pennsylvania,
and People's Trust Company of Tamaqua, Pennsylvania, Tamaqua,
Pennsylvania, would have little, if any, competitive effect
in the area presently served by the former and would elimi-
nate only minor competition between the subject banks in the
Tamaqua area. However, effectuation of the proposal would
increase the concentration of banking resources in the bank
that currently is the largest of those headquartered in the
principal area it serves. Should both pending applications
to merge Tamaqua banks be consummated, there would remain
no locally headquartered bank in Tamaqua.

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Printing Federal Reserve notes (Item No. 3). There had been distributed a memorandum dated June 23, 1966, from the Division of Bank Operations regarding a printing order for approximately 2 billion Federal Reserve notes for the fiscal year 1967. The proposed order would maintain the System stock of currency at a two-year supply in the \$5-\$100 denominations and a one-year supply in the \$1 denomination, in keeping with emergency contingency plans, and provide for new note requirements in fiscal 1967. A draft of letter to the Comptroller of the Currency requesting that the order be placed with the Bureau of Engraving and Printing was attached.

Mr. Farrell observed that a policy issue was involved in the proposed printing order; namely, whether at the present time it was desirable to maintain the target objective for currency stock under the System's war emergency plan. In considering the over-all question of availability of currency in the event of enemy attack, the Presidents' Conference Subcommittee on Emergency Operations defined Federal Reserve offices according to three categories of vulnerability: the "A" group, at which vaults had a high probability of total destruction or inaccessibility for more than two years following a nuclear attack; the "B" group, having a 75 per cent probability of accessibility within one year; and the "C" group, with negligible probability of total destruction or inaccessibility beyond 30 days. In achieving the goal of a two-year emergency reserve of the \$5-\$100 denominations and one-year reserve of the

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\$1 denomination, the Subcommittee recommended that currency stored at the Bureau of Engraving and Printing in Washington not be counted; that not more than half the target supply be placed at offices in Group A or more than three-quarters of the reserve be stored at Group B offices; and that the other half or quarter, as the case might be, be stored at cash agent banks or at Federal Reserve vault storage facilities to be constructed in Chicago, Denver, and Culpeper. Mr. Farrell noted that the vault at Chicago would be available this fall, but construction of the other two facilities would not be completed for at least two years. In these circumstances, Mr. Farrell said, he would recommend that the printing order for new Federal Reserve notes be reduced to 1.6 billion from the 2 billion requested in the draft letter to the Comptroller. This would mean drawing on the emergency stock stored in Washington for current needs during fiscal 1967, but he believed this to be justified because in a nuclear attack this reserve would undoubtedly be destroyed in any event.

Mr. Harris, in response to a question from Governor Brimmer as to his views on the matter, indicated that he could see no reason for not maintaining the target supply of emergency currency at this time merely because contemplated "safe" storage facilities were not fully available. He would recommend that the supply be kept at the target level, with a view to moving the additional notes out of Washington as soon as the planned vault facilities became available.

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In reply to an inquiry from Governor Daane, Mr. Daniels said that, aside from being convinced of the merit of maintaining the emergency supply of currency at its current level, a drastic curtailment in the printing of Federal Reserve notes would have an adverse effect upon production schedules at the Bureau of Engraving and Printing, where estimates of labor requirements were made far in advance. The amicable working relationship between the Bureau and its unions had contributed to a reduction in the System's cost of printing notes, and if the System were to reduce its note requirements at this time layoffs would undoubtedly result, which could cause adverse repercussions in the Bureau's labor relations. Also, if attrition were now allowed in the emergency currency supply, extensive overtime at the Bureau would be required to build the stock back up to target levels when the planned storage facilities became available in about 2 years, with a cost increase to the System. The Bureau had indicated a hope the System order for 1967 would amount to between 2.1 and 2.3 billion notes, from the standpoint of meeting planned workload requirements.

Governor Brimmer said that he was not sure how much weight should be given to basing printing requirements on the workload plans of the Bureau of Engraving and Printing during the 1967 fiscal year, while Governors Mitchell, Daane, and Maisel felt that the cost advantages, plus the value of maintaining the target goal of emergency supplies pending the opportunity to move that portion stored in

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Washington to a safer location, warranted proceeding with the recommended 1967 order for approximately 2.0 billion new Federal Reserve notes.

The letter to the Comptroller of the Currency was then approved unanimously. A copy is attached as Item No. 3.

Messrs. Farrell and Daniels then withdrew from the meeting.

Application of Virginia Commonwealth Corporation. There had been distributed a memorandum from the Division of Examinations dated June 20, 1966, and other pertinent material relating to an application by Virginia Commonwealth Corporation, Richmond, Virginia, to acquire shares of The First Valley Bank, Weber City, Virginia. The Division's recommendation was favorable.

Subsequently, in a distributed memorandum dated June 24, 1966, the Division of Examinations reaffirmed this conclusion in the light of new criteria included in enrolled bill H.R. 7371, to amend the Bank Holding Company Act of 1956 in certain respects.

Following comments by Mr. Lyon in supplementation of the material that had been distributed, the application was approved unanimously, with the understanding that an order and statement reflecting this decision would be prepared for the Board's consideration.

Messrs. Harris, Thompson, Egertson, Lyon, Maguire, and Smith withdrew from the meeting at this point, and Messrs. Byrne, Vander Noot, and Veenstra of the Division of Data Processing entered the room.

"Freedom of information" bill. There had been distributed a memorandum from the Legal Division dated June 23, 1966, relating to

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S. 1160, a bill "To amend section 3 of the Administrative Procedure Act . . . to clarify and protect the right of the public to information". The bill had passed the Senate on October 13, 1965, and the House of Representatives on June 20, 1966. By its terms, the provisions thereof were to become effective one year following signature by the President.

The legislation would require publication in the Federal Register of agency rules of organization, procedures, and practices, and substantive rules of general applicability and statements of general policy formulated and adopted by the agency, together with every amendment, revision, or repeal of all of the foregoing. These requirements would be similar to those of the present Administrative Procedure Act, but S. 1160 would remove the present exemption from publication requirements for (1) any function of the United States requiring secrecy in the public interest, or (2) any matter relating solely to the internal management of an agency. Under the proposed amendment, grounds for nondisclosure of agency actions and records would be much more severely restricted than those currently in effect.

In reviewing the anticipated impact of the legislation upon the Federal Reserve System, Mr. O'Connell noted, by way of example, that publication of Board policy decisions and Federal Open Market Committee directives on a current basis would appear to be required. Another provision of the bill would require that every agency make available

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for public inspection and copying "those statements of policy and interpretations which have been adopted by the agency and are not published in the Federal Register." Also, the Board would be required to maintain and make available for public inspection and copying a current reference index containing identifying information with respect to matters required to be made available or published, a provision which no doubt would necessitate some changes in indexing procedures at the Board.

The most drastic and significant change from existing law, in Mr. O'Connell's view, would be abolishment of the present exemption from public inspection and copying requirements for those matters "required for good cause to be held confidential." A literal reading of the legislation would apparently mean that the public would have an indiscriminate right of access to records relating to the decision-making processes of the Board and the Federal Open Market Committee. This would include minutes and other records with respect to such matters as the establishment of discount rates, setting of stock margin requirements, establishment of interest rates under Regulation Q, and actions on bank supervisory matters, as well as open market policy decisions and operating techniques.

Mr. O'Connell added that the provisions of S. 1160 were being brought to the attention of the Board at this time in order that the staff might receive guidance as to the course it should follow in

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preparing a draft reply to an expected inquiry from the Budget Bureau for views to be communicated, along with transmittal of the enrolled bill, to the President. The Board could, of course, strongly oppose S. 1160, in effect urging its veto, but there was little likelihood of a veto in view of the strong support in Congress and by the press for the bill. An alternative course might be to undertake, on behalf of the Board and the Federal Open Market Committee, discussions with appropriate Federal agencies looking toward the possibility of exempting certain types of Board and Committee actions from the provisions of S. 1160 through Executive Order, notwithstanding that the bill would provide for such exemption only of matters "specifically required by Executive order to be kept secret in the interest of the national defense or foreign policy."

There followed a discussion during which the staff responded to questions by members of the Board directed principally toward the implications of the proposed legislation. It was noted that the Board and the Federal Open Market Committee had long followed a practice of making available as promptly as seemed feasible a large amount of information relating not only to policy actions but also to administrative decisions. While agreeing that this practice should be continued and furthered, a consensus developed that the Board should take a strong position in opposition to certain parts of this particular bill, short of urging its veto. This should include efforts at the appropriate

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time to obtain exemption for those Board and Open Market Committee records the untimely publication of which could damage the public interest. The suggestion also was made that present procedures be reviewed in the light of the proposed legislation.

At the conclusion of the discussion, it was understood that a draft of letter expressing strong opposition to certain portions of the legislation would be prepared for the Board's consideration, on the assumption that such a report would be requested by the Bureau of the Budget.

Requests for access to Board records. There had been distributed a memorandum from Mr. Sherman dated June 24, 1966, referring to pending requests from two university professors for access to Board records up to 1951-52. The requests had been discussed at the Board meeting on May 27, 1966, at which time Governor Brimmer expressed reservations about permitting individuals who made requests for access to Board records to have such access, particularly for the period covering the Treasury-Federal Reserve accord. He had suggested that all such requests be declined until the records could be made generally available to interested persons, his view being that this would be the best way to avoid giving some persons special advantage in using the material for historical research. In a distributed memorandum dated June 13, 1966, which had not yet been considered by the Board, Governor Brimmer had suggested a program for speeding up review of Board records and

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making material available through general reference sources to as great a degree as the Board determined to be desirable.

In commenting on the June 24 memorandum, Mr. Sherman noted that the two professors whose requests were pending expected to be in Washington around the first of July in the hope of having access to the requested records. In one case, that of Professor Wicker of Indiana University, the request could be met by giving him access to records to the end of 1946 (Mr. Wicker previously had been authorized to research pre-World War II records); in the other, involving Professor Bernstein of Stanford University, the request was for access to Board records to the close of President Truman's administration, to assist him in an historical study of the Truman years. After consulting with Governor Brimmer, it was Mr. Sherman's suggestion that access to the records continue to be authorized at this time for periods up to the end of 1946, on the same basis as such permission had been granted previously to persons who had requested access to records for periods prior to World War II. Such a procedure would meet most of Professor Wicker's request and some of Professor Bernstein's. The latter had, of course, been using published Federal Open Market Committee minutes for the entire period of his study. This would leave Governor Brimmer's proposal to be taken up at a later meeting of the Board.

Following discussion, the Secretary was authorized to grant access to Board records (including minutes) up to the end of 1946 on

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the same basis as in past instances, and it was understood that Governor Brimmer's memorandum would be considered after the return of Governor Shepardson, who had expressed particular interest in the matter.

"Cease and desist" bill. There had been distributed a memorandum from Mr. Cardon dated June 24, 1966, relating to S. 3158, the so-called "cease and desist" bill, currently pending before the Senate Banking and Currency Committee. The bill would grant to the Federal Home Loan Bank Board, with respect to savings and loan associations, and to the three Federal bank supervisory agencies, with respect to banks, authority to issue cease and desist orders to stop violations of law and unsafe or unsound practices, and to suspend or remove officers or directors for such violations or practices, or for breaches of fiduciary duty, where damage to the institution or serious prejudice to the depositors could result.

The United States Savings and Loan League, while generally supporting other portions of the bill, strongly objected to the suspension and removal authority. Chairman Horne of the Federal Home Loan Bank Board and Messrs. Randall and Sherrill of the Federal Deposit Insurance Corporation had proposed a compromise, acceptable to the United States Savings and Loan League, whereby suspension or removal would be authorized only where personal dishonesty was involved. The question before the Board was whether the proposed compromise was acceptable.

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In commenting on the proposal, Mr. Cardon reported that he had discussed the matter with Governor Robertson, who was of the opinion that the increased powers gained by the Board as a result of the cease and desist authority would strengthen the Board's supervisory authority sufficiently to warrant accepting the proposed compromise even though the contemplated removal authority was more restrictive than that presently available.

Following discussion of the memorandum and of the points brought out by Mr. Cardon's presentation, the Board authorized Mr. Cardon to inform Chairmen Horne and Randall that the Board would not object to the suggested compromise.

Amendments to Regulations D and Q. At the meeting on June 24, 1966, the Board reached a decision to increase member bank reserve requirements from 4 per cent to 5 per cent against the amount of time deposits (other than savings deposits) in excess of \$5 million at each member bank and also to adopt a definition of "deposits" for purposes of Regulation D, Reserves of Member Banks, and Regulation Q, Payment of Interest on Deposits, that would bring promissory notes within the deposit category for both interest rate limitations and reserve requirements. The latter action, however, was not to be announced until it had been discussed with the Federal Deposit Insurance Corporation, in case that agency wished to take similar action in regard to its regulation parallel to the Board's Regulation Q. Both actions also were

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subject to review by the Board of drafts of a press release and amendments to the regulations, which the staff had been requested by the Board to prepare for consideration at this meeting.

Since the Board's decisions of June 24 were reached in the light of analysis and findings of a recent survey of time and savings deposits at member banks, the findings of that survey were also to be released to the public concurrent with announcement of the amendments to Regulations D and Q.

There had now been distributed (1) a draft of press release concerning the amendments to Regulations D and Q, together with texts of the amendments, and (2) a draft of press release on the interest rate survey, in revised form.

At the beginning of the discussion, during which a number of editorial changes were made in the draft press statements, Mr. Hackley reported on a conversation he had had with Mr. Lee, Assistant to Chairman Randall of the Federal Deposit Insurance Corporation. Chairman Randall was in Canada, and Mr. Sherrill, Director, wished to talk with him by telephone and also consult with the Comptroller of the Currency before commenting on the proposed amendment that would bring promissory notes within the definition of deposits.

Discussion then centered on the procedure to be followed in the event definite word should not be received regarding the views of the FDIC before the proposed announcement of the Board's actions at 3:30

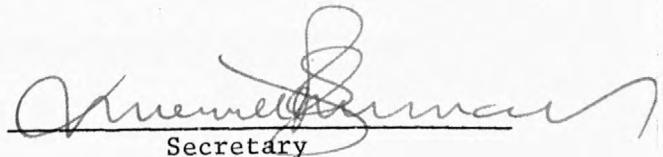
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this afternoon. At the conclusion of the discussion, it was agreed that statements on the change in reserve requirements for time deposits and the results of the interest rate survey would be released as scheduled in any event, and that announcement of the action regarding promissory notes would depend upon further word from the Federal Deposit Insurance Corporation.

Secretary's Note: Word having been received by Chairman Martin from Director Sherrill that the Corporation would have no objection to the Board's announcing its action on promissory notes today, although the Corporation was not taking similar action, at least at this time, statements for the press and other customary advices regarding the amendments to Regulations D and Q were issued later in the day as recorded in the Secretary's Note in the minutes of the Board meeting on June 24, 1966.

The meeting then adjourned.


Secretary

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

Item No. 1
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 27, 1966

Board of Directors,
The Farmers and Citizens
Banking Company,
Monroeville, Ohio.

Gentlemen:

Pursuant to the provisions of Section 24A of the Federal Reserve Act, the Board of Governors of the Federal Reserve System approves an investment in bank premises by The Farmers and Citizens Banking Company, Monroeville, Ohio, of not to exceed \$105,000 for the construction of a new main office building. This latter amount does not include an expenditure recently made for the purpose of purchasing property on which to construct the new building.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 2
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OFFICE OF THE CHAIRMAN

June 27, 1966

Mr. Wilfred H. Rommel,
Assistant Director for
Legislative Reference,
Bureau of the Budget,
Washington, D. C. 20503

Dear Mr. Rommel:

This is in response to your request of June 24, 1966, for views and recommendations of the Board of Governors with respect to enrolled bill S. 3368, "To amend section 14(b) of the Federal Reserve Act, as amended, to extend for two years the authority of Federal Reserve banks to purchase United States obligations directly from the Treasury."

The Board favors Presidential approval of the bill.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

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

Item No. 3
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 29, 1966

The Honorable James J. Saxon,
Comptroller of the Currency,
United States Treasury Department,
Washington, D. C. 20226

Dear Mr. Saxon:

It is respectfully requested that you place an order with the Bureau of Engraving and Printing for printing 2,025,504,000 Federal Reserve notes (single units) of the 1963 Series or 1950 Series during the fiscal year ending June 30, 1967, in the amounts and denominations shown below for the various Federal Reserve Banks:

	<u>Denomi- nation</u>	<u>Number of notes</u>	<u>Dollar amount</u>
Boston	\$1	40,480,000	\$40,480,000
	5	18,560,000	92,800,000
	10	36,480,000	364,800,000
	20	3,840,000	76,800,000
	50	256,000	12,800,000
	100	512,000	51,200,000
New York	\$1	163,520,000	\$163,520,000
	5	60,400,000	302,000,000
	10	26,240,000	262,400,000
	20	10,120,000	202,400,000
	50	2,816,000	140,800,000
	100	7,232,000	723,200,000
Philadelphia	\$1	62,880,000	\$62,880,000
	5	18,560,000	92,800,000
	10	21,760,000	217,600,000
	20	3,200,000	64,000,000
	50	512,000	25,600,000
	100	256,000	25,600,000
Cleveland	\$1	105,120,000	\$105,120,000
	5	24,960,000	124,800,000
	10	21,760,000	217,600,000
	20	19,200,000	384,000,000
	50	1,280,000	64,000,000
	100	512,000	51,200,000

	<u>Denomi- nation</u>	<u>Number of notes</u>	<u>Dollar amount</u>
Richmond	\$1	153,920,000	\$153,920,000
	5	38,400,000	192,000,000
	10	31,360,000	313,600,000
	20	32,000,000	640,000,000
	50	1,024,000	51,200,000
	100	1,536,000	153,600,000
Atlanta	\$1	173,120,000	\$173,120,000
	5	30,720,000	153,600,000
	10	22,400,000	224,000,000
	20	5,120,000	102,400,000
	50	768,000	38,400,000
	100	1,024,000	102,400,000
Chicago	\$1	234,560,000	\$234,560,000
	5	70,560,000	352,800,000
	10	69,000,000	690,000,000
	20	44,800,000	896,000,000
	50	2,304,000	115,200,000
	100	1,024,000	102,400,000
St. Louis	\$1	54,560,000	\$54,560,000
	5	10,240,000	51,200,000
	10	4,480,000	44,800,000
	20	1,920,000	38,400,000
	50	---	---
	100	512,000	51,200,000
Minneapolis	\$1	35,200,000	\$35,200,000
	5	8,320,000	41,600,000
	10	8,320,000	83,200,000
	20	6,400,000	128,000,000
	50	256,000	12,800,000
	100	256,000	25,600,000
Kansas City	\$1	56,480,000	\$56,480,000
	5	11,520,000	57,600,000
	10	7,680,000	76,800,000
	20	7,680,000	153,600,000
	50	---	---
	100	256,000	25,600,000

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	<u>Denomi- nation</u>	<u>Number of notes</u>	<u>Dollar amount</u>
Dallas	\$1	68,640,000	\$68,640,000
	5	10,880,000	54,400,000
	10	14,080,000	140,800,000
	20	7,680,000	153,600,000
	50	256,000	12,800,000
	100	256,000	25,600,000
San Francisco	\$1	70,400,000	\$70,400,000
	5	15,360,000	76,800,000
	10	23,040,000	230,400,000
	20	35,200,000	704,000,000
	50	1,024,000	51,200,000
	100	512,000	51,200,000
Totals	\$1	1,218,880,000	\$1,218,880,000
	5	318,480,000	1,592,400,000
	10	286,600,000	2,866,000,000
	20	177,160,000	3,543,200,000
	50	10,496,000	524,800,000
	100	<u>13,888,000</u>	<u>1,388,800,000</u>
		<u>2,025,504,000</u>	<u>11,134,080,000</u>

Respectfully,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.