

Minutes for October 28, 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><i>(M)</i></u>
Gov. Robertson	<u><i>R</i></u>
Gov. Shepardson	<u><i>LSM</i></u>
Gov. Mitchell	<u><i>MM</i></u>
Gov. Daane	<u><i>Daane</i></u>
Gov. Maisel	<u><i>SM</i></u>
Gov. Brimmer	<u><i>CB</i></u>

Minutes of the Board of Governors of the Federal Reserve

System on Friday, October 28, 1966. The Board met in the Board Room at 10:00 a.m.

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

Mr. Kenyon, Assistant 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. Fauver, Assistant to the Board
Mr. Solomon, Director, Division of Examinations
Miss Eaton, General Assistant, Office of the
Secretary
Mr. Morgan, Staff Assistant, Board Members' Offices

Messrs. Koch, Williams, Axilrod, Gramley, Bernard,
Eckert, Ettin, Fry, Keir, Kelty, and Rosenblatt,
and Mrs. Peskin of the Division of Research
and Statistics

Messrs. Sammons, Hersey, Katz, Reynolds, Baker,
Gemmill, and Ruckdeschel of the Division of
International Finance

Money market review. Mr. Bernard reported on the Government securities market, with comments on the current Treasury financing, and Mr. Eckert commented on bank credit developments, both referring during their presentations to statistical material that had been distributed at the beginning of the meeting, copies of which have been placed in the Board's files.

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Mr. Baker then discussed recent developments in foreign exchange markets, following which all staff members except Messrs. Kenyon, Bakke, Young, Holland, Solomon (Adviser), Molony, Solomon (Examinations), and Sammons withdrew from the meeting and the following entered the room:

Mr. Hackley, General Counsel
 Messrs. Farrell, Director, and Kiley, Assistant Director,
 Division of Bank Operations
 Mr. Smith, Assistant Director, Division of Examinations
 Messrs. Forrestal, Senior Attorney, and Shuter, Attorney,
 Legal Division
 Mr. Egertson, Supervisory Review Examiner, Division of
 Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on October 24, and by the Federal Reserve Banks of Cleveland, Richmond, Atlanta, St. Louis, Minneapolis, Kansas City, and Dallas on October 27, 1966, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Approved items. The following items, copies of which are attached under the respective item numbers indicated, were approved unanimously following consideration of background materials that had been made available to the members of the Board:

	<u>Item No.</u>
Letter to Hempstead Bank, Hempstead, New York, approving the establishment of a branch in Oyster Bay.	1
Letter to Commerce Union Bank, Nashville, Tennessee, granting an extension of time within which to establish an in-town branch.	2

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Item No.

Letter to the Bureau of the Budget reporting no objection to approval by the President of enrolled bill H.R. 13103 (the Foreign Investors Tax Act of 1966) insofar as concerned provisions within the purview of the Board's interest.

3

Telegram to the Federal Reserve Bank of New York approving payment of an interim billing for legal fees in excess of the original authorization for services rendered in connection with litigation seeking a reduction in the assessed valuation of the Buffalo Branch real estate and a recovery of taxes related to the overassessment.

4

Local destruction of Federal Reserve notes (Item No. 5). There had been distributed a memorandum from the Division of Bank Operations dated October 26, 1966, referring to a request contained in a letter dated October 25 from the Fiscal Assistant Secretary of the Treasury that early consideration be given to:

- (1) Extending to unfit \$5 and \$10 Federal Reserve notes the local destruction procedures that are now being followed with respect to unfit \$1 Federal Reserve notes; and
- (2) Using in connection with such local destruction a percentage verification at or near the limits imposed by the regulations of the Secretary--i.e., not less than 10 per cent of the \$5 denomination and not less than 20 per cent of the \$10 denomination.

The memorandum pointed out that under existing procedures, redemption credit for unfit \$1 Federal Reserve notes was being allocated among the Banks on the basis of issues during the previous year, but that a System committee was presently engaged in a study to determine an appropriate base for allocating redemption credit for higher denominations,

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with a report on this matter expected to be made to the December meeting of the Presidents' Conference. However, discussions with Treasury staff had resulted in the conclusion that extension of local destruction to the \$5 and \$10 denominations need not await the development of a formula for allocating redemption credit for such denominations because, pending development of such a formula, redemption credit could be allocated on the basis of the actual sort by Bank of issue that was now being made.

While this interim procedure would not permit realization of full savings from local destruction because it would still require sort by Bank of issue, it would save shipping charges to Washington and simplify the somewhat tedious adjustment of errors now resulting from switches between the upper halves of notes being retained by the Banks and the lower halves being shipped to Washington.

The memorandum concluded with a recommendation that a copy of the Treasury Department request be sent to the President of each Federal Reserve Bank for comment, and a draft of covering letter proposed for this purpose was attached.

Governor Mitchell stated that he would prefer to see the Reserve Banks cease sorting unfit \$5 and \$10 Federal Reserve notes by Bank of issue, and store these notes in their vaults pending development of an appropriate formula for redemption credit incident to local destruction procedures.

Mr. Farrell observed that apart from limited vault storage space at some of the Reserve Banks, there was also an element of security

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involved. While large quantities of unfit \$1 Federal Reserve notes had been held in storage pending legislative authority for local destruction, there was a feeling on the part of a number of the Reserve Bank Presidents that it would be undesirable to accumulate a large volume of unfit notes of higher denominations in storage. This consideration took on added significance, in Mr. Farrell's opinion, since there was no assurance that the Conference of Presidents would accept the redemption credit formula being developed for consideration at the December meeting.

Governor Mitchell responded that these observations convinced him more than ever of the desirability of obtaining legislative authority for a single issue of Federal Reserve notes.

Governor Robertson then suggested that under the present circumstances it seemed desirable for the Reserve Banks to consider and submit comments on the Treasury Department request, even though the savings realized thereby would be limited, and it was the consensus that this would be the most feasible approach.

The letter to the Reserve Banks transmitting a copy of the Treasury Department's October 25 communication was thereupon approved unanimously. A copy is attached as Item No. 5.

The meeting then adjourned.

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

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Letter to the Federal Reserve Bank of San Francisco (copy attached as Item No. 6) regarding arrangements whereby Robert C. Johnsen, Senior Examiner, would be assigned to the Board's Division of Examinations for a period of approximately three months beginning about November 14, 1966.

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

Appointments

Ruth Robinson as Statistical Clerk, Division of Research and Statistics, with basic annual salary at the rate of \$4,776, effective the date of entrance upon duty.

Nancy Bergstedt as Clerk-Typist, Division of International Finance, with basic annual salary at the rate of \$4,269, effective the date of entrance upon duty.

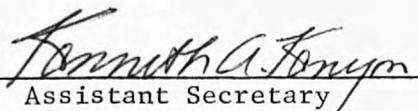
Wayne J. Bess as Messenger, Division of Administrative Services, with basic annual salary at the rate of \$3,609, effective the date of entrance upon duty.

Adeline E. Belloni as Statistical Clerk, Division of Data Processing, with basic annual salary at the rate of \$4,776, effective the date of entrance upon duty.

James Alan Pflueger as Analyst-Operations Supervisor, Division of Data Processing, with basic annual salary at the rate of \$10,927, effective the date of entrance upon duty. (It was understood that the Board would pay for the moving and transportation expenses of Mr. Pflueger and his family from Dallas, Texas, to Washington, D. C.)

Humda Mary Van Pelt as Key Punch Operator, Division of Data Processing, with basic annual salary at the rate of \$4,701, effective the date of entrance upon duty.

Governor Shepardson also noted today on behalf of the Board a memorandum advising of the death of Lyla E. Szillat, Control Clerk, Division of Data Processing, on October 25, 1966.


Assistant Secretary

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

Item No. 1
10/28/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 28, 1966

Board of Directors,
Hempstead Bank,
Hempstead, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch at 521 Stewart Avenue, Bethpage (unincorporated area), Town of Oyster Bay, Nassau County, New York, by Hempstead Bank, Hempstead, New York, provided the branch is established within one year from the date of this letter, and provided further that branch operations conducted at 249 Broadway, Bethpage, are discontinued simultaneously with the establishment of the above branch.

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
10/28/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 28, 1966

Board of Directors,
Commerce Union Bank,
Nashville 3, Tennessee.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to September 1, 1967, the time within which Commerce Union Bank, Nashville, Tennessee, may establish a branch in a shopping center in the vicinity of the intersection of Thompson Lane and Powell Avenue, Nashville, Tennessee, provided operations at the bank's existing office at 602 Thompson Lane are discontinued simultaneously with the opening of the new branch.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 3
10/28/66

OFFICE OF THE VICE CHAIRMAN

October 28, 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 communication of October 26, 1966, requesting the views of the Board on the enrolled bill H. R. 13103, the "Foreign Investors Tax Act of 1966".

Although the proposed legislation contains many provisions which are not within the jurisdiction or competence of the Board, and about which it does not wish to comment, the Board has no objection to the approval by the President of those provisions of the bill of direct concern to the Board.

Sincerely,

(Signed) J. L. Robertson

J. L. Robertson.

Item No. 4
10/28/66

T E L E G R A M
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

October 31, 1966

CLARKE - NEW YORK

Board approves your request for approval of payment of legal fees to Ohlin, Damon, Morey, Sawyer and Moot \$750 in excess of original authorization of up to \$10,000.

(Signed) Kenneth A. Kenyon

KENYON

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

Item No. 5
10/28/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 28, 1966.



Dear Sir:

Enclosed is a copy of a letter dated October 25, 1966, from Fiscal Assistant Secretary of the Treasury Carlock asking that early consideration be given to--

- (1) Extending to unfit \$5 and \$10 Federal Reserve notes the local destruction procedures that are now being followed with respect to unfit \$1 Federal Reserve notes.
- (2) Using in connection with such local destruction a percentage verification at or near the limits imposed by the regulations of the Secretary--i.e., not less than 10 per cent of the \$5 denomination and not less than 20 per cent of the \$10 denomination.

The regulations of the Secretary referred to above were issued May 20, 1966, pursuant to Section 16 of the Federal Reserve Act (12 U.S.C. 413), as amended by the Act of May 20, 1966. These regulations contain, among other items, the following provision:

"Unfit notes of the \$1 denomination cancelled by Federal Reserve Banks shall be verified at the Federal Reserve Banks. The Fiscal Assistant Secretary, after consultation with the Board of Governors of the Federal Reserve System, may specify other denominations of unfit notes cancelled by Federal Reserve Banks which shall be verified at the Federal Reserve Banks."

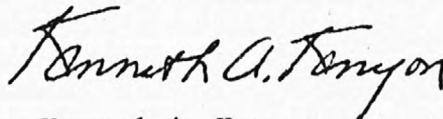
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Mr. Carlock's letter of October 25, 1966, indicates that the Treasury would like to have the local destruction of \$5 and \$10 denominations begin as soon as possible, and at least by the end of the year. Under existing procedures redemption credit for unfit \$1 Federal Reserve notes is being allocated among the Banks on the basis of issues during the previous year. A System committee is presently engaged in a study to determine an appropriate base for allocating redemption credit for higher denominations, and it is understood that a report on this matter is to be made to the December Presidents' Conference. However, discussions with the Treasury staff have resulted in the conclusion that extension of local destruction to the \$5 and \$10 denominations need not await the development of a formula for allocating redemption credit for such denominations because, pending such a formula, redemption credit could be allocated on the basis of the actual sort by Bank of issue that is now being made.

While this interim procedure would not permit realization of the full savings from local destruction because it would still require sort by Bank of issue, it would save shipping charges to Washington and simplify the now somewhat tedious adjustment of errors resulting from switches between the upper halves of notes being retained by the Banks and the lower halves being shipped to Washington.

The Board would like to receive as soon as convenient any comments your Bank may care to make with respect to the proposal in Mr. Carlock's letter of October 25, 1966.

Very truly yours,



Kenneth A. Kenyon,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

4072

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 6
10/28/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 28, 1966.

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

Dear Mr. Swan:

In accordance with the tentative arrangements made with Vice President Jennings by Mr. Solomon, Director of the Board's Division of Examinations, it is understood that your Bank will assign Mr. Robert C. Johnsen, Senior Examiner for your Bank, to the Board's offices for a period of approximately three months, beginning about November 14, 1966. While in Washington Mr. Johnsen will be designated as a Federal Reserve Examiner and will work principally on merger and holding company matters in the Division of Examinations.

It is understood that the Federal Reserve Bank of San Francisco will absorb all of Mr. Johnsen's salary and travel expenses while on this assignment.

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

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.