

CONFIDENTIAL

Thursday, December 30, 1948, 3:30 p.m.

DOCKET

The following matters are on the docket for consideration at a meeting of the Board to be held at 10:30 a.m. on Friday, December 31, 1948, in the Board Room:

1. Approval of discount rates of Federal Reserve Banks.
2. Consideration of Board's budget for the year 1949 and assessment of Reserve Banks for expenses during the first six months of the year. This matter is on the docket at the request of the personnel committee.
3. (a) Further consideration of statements prepared in connection with legislation on supplemental reserve requirements and instructions to be issued in connection with the preparation of the legislation. This matter is on the docket as a result of informal discussion of members of the Board today.

(b) Further consideration of proposed bill with respect to additional authority over reserve requirements. It is expected that a memorandum in regard to the bill will be sent to each member of the Board before the meeting.
4. Telegram from Mr. Sproul dated December 29, 1948 with respect to setting up of \$40,000,000 as contingent reserves of the Federal Reserve Banks. A copy of Mr. Sproul's telegram is attached, and the matter is on the docket at Chairman McCabe's request.

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TELEGRAM FROM MR. SPROUL TO CHAIRMAN McCABE, DATED DECEMBER 29, 1948.

FOLLOWING UP OUR TELEPHONE CONVERSATION REGRET OF COURSE DECISION TAKEN WITH RESPECT TO YEAR END ACCOUNTING OF FUNDS WITHHELD FROM TREASURY, AS CONTAINED IN INSTRUCTIONS RECEIVED BY WIRE YESTERDAY AND AS EXPLAINED IN LETTER RECEIVED TODAY. BELIEVE THAT FULL DISCUSSION OF RISKS INVOLVED IN METHOD NOW ADOPTED MIGHT WELL HAVE ALTERED OPINION OF RESERVE BANKS AS EXPRESSED AT RECENT JOINT MEETING WITH BOARD, AND MIGHT WELL HAVE GAINED TREASURY ACQUIESCENCE IN ALTERNATIVE PROCEDURE. QUITE APART FROM THESE QUESTIONS NOW RESOLVED BELIEVE SUGGESTED EXPLANATION OF OUR ACTION, INSOFAR AS IT RELATES TO CURRENCY SHIPMENTS WOULD BE MISLEADING SINCE THERE IS NOTHING NEW IN SITUATION THIS YEAR TO SUGGEST CHANGE IN OUR ACCOUNTING PRACTICES AND SINCE WE HAVE A REGULARLY ESTABLISHED AND ARE ACCUMULATING SEPARATE RESERVE FOR THIS PURPOSE WHICH HAS BEEN AND IS DEEMED ADEQUATE. THIS LEAVES US WITH THE EXPLANATION THAT WE ARE SETTING UP A RESERVE AGAINST PREMIUM ON OUR HOLDINGS OF GOVERNMENT SECURITIES AND EXPOSES US TO RISKS OF MISINTERPRETATION AFFECTING EXISTING POLICY WITH RESPECT TO SUPPORT PROGRAM WHICH IT WOULD HAVE BEEN MOST DESIRABLE TO AVOID. DO NOT BELIEVE COMPARISON WITH ACCOUNTING PRACTICES OF COMMERCIAL BANKS AND BUSINESS ORGANIZATIONS IS PERTINENT BECAUSE OF WHOLLY DIFFERENT POSITION CENTRAL BANK OCCUPIES IN ECONOMY, DIFFERENCES IN PAST ACCOUNTING PRACTICES AND DIFFERENCES IN CHARACTER OF LIABILITIES AND ASSETS.

FOR OUR PART WOULD HAVE PREFERRED NO CHANGE AT ALL IN ACCOUNTING AND TRANSFERS TO TREASURY, IF SOLE ALTERNATIVE IS METHOD BEING FOLLOWED. OUR REAL EXPOSURE IS IN OUR TOTAL HOLDINGS OF GOVERNMENT SECURITIES, AND IS NOT CURED BY HASTENING AMORTIZATION OF PREMIUMS, WHILE RISKS OF METHOD ADOPTED TO ACCOMPLISH LATTER PURPOSE ARE NO LESS REAL BECAUSE THEY MAY NOT BE FULLY REALIZED.

SPROUL.

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Thursday, December 30, 1948, 4:45 p.m.

SUPPLEMENTAL
DOCKET

The following additional item is on the docket for consideration at a meeting of the Board to be held at 10:30 a.m. on Friday, December 31, 1948, in the Board Room:

Mr. Szymczak would like to report at this meeting the current situation with respect to the application of the Bank of America NT&SA for permission to establish a branch in Siam, for the purpose of ascertaining whether the Board wishes to take any action at this time.

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