A meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks was held in the offices of the Board of Governors in Washington on Friday, February 28, 1947, at 2:15 p.m.

PRESENT: Mr. Eccles, Chairman
Mr. Draper
Mr. Evans
Mr. Vandaman
Mr. Clayton

Mr. Carpenter, Secretary

Messrs. Whittemore, Sproul, Williams, Gidney, Leach, McLarin, Young, Davis, Peyton, Leedy, Gilbert, and Earhart, Presidents of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco, respectively.

Mr. Treiber, Secretary of the Presidents' Conference

The Presidents' Conference met in Washington on Tuesday and Wednesday, February 25 and 26, 1947, and yesterday presented to the Board a memorandum of matters which the Conference wished to discuss with the Board. The discussion at this meeting with respect to each of the topics referred to in the memorandum was substantially as follows:

1. Functional expense accounting. The Conference received through the Committee on Operations the report dated February 14, 1947, of the subcommittee on expense accounting. The Conference approved the report. The Conference recommends that Form F.R. 634 and the manual
be revised in accordance with the recommendations in the report, by April 1, 1947, if possible, it being understood that one or two inconsistencies between such recommendations and the recommendations in the report dated October 22-25, 1946, of the subcommittee on Fiscal Agency Operations and Reimbursable Expenses will have to be reconciled in the course of the revision. The Conference recommends that, for the present, functional expense reports be submitted monthly.

Chairman Eccles informed the Presidents that their proposal on this subject was satisfactory to the Board.

2. Maximum deferment of credit for cash items.

After the last meeting of the Conference the Committee on Operations requested the Committee on Collections to endeavor to develop a soundly conceived plan of reducing the maximum period of deferment of credit for cash items and the number of "sorts" required of banks. The Committee on Collections reported to the Conference through the Committee on Operations, setting forth, without recommendation, a plan for accomplishing the objectives, but pointing out, at the same time, that the plan would substantially increase float, delay presentation of items, and create difficult mechanical and personnel problems for the Reserve Banks. The Conference continues to be of the view, as expressed at its last meeting, that the System should be alert and aggressive to improve methods of collection so as to shorten the period required for the actual collection of items and so as to reduce, when practicable, the number of "sorts" required of banks. The Presidents were unwilling to accept the report, however, in view of the increase in the already large amount of Federal Reserve float which would result from the suggested reduction of the maximum deferment time to two days, the delay in presentation and the complex problems of operations involved. Some of the Presidents suggested that the Reserve Banks consider the matter of "average float" and the practice of commercial banks in determining the "average float" carried for correspondent banks with a view to endeavoring to develop a program which would avoid any increase in Federal Reserve credit incident to the reduction of the maximum period of deferment to two days. Others suggested the exploration of
methods of handling incoming cash items which would elim-
inate some of the existing difficulties attendant upon
handling a large volume of unsorted items. The Committee
on Collections was instructed to study the subject further
in the light of such suggestions, bearing in mind the de-
sirability of maintaining sound credit policy and sound
practices in the presentation of checks and other cash
items.

Chairman Eccles stated that the Board felt that the System
should go on a two-day maximum deferment period for credit for cash
items at the earliest convenient date and hoped that the considera-
tion proposed by the Presidents' Conference would be given immediately
with a view to action as promptly as possible. He also said that the
Board was giving consideration to the amendments that might be made
to its regulations in connection with this change. He made the
further statement that it was the opinion of the Board that member-
ship in the System was not too attractive to the smaller banks,
that further reduction in maximum deferment was one of the ways
that this situation might be met, and that as a further step to that
end, and as a means of speeding up the collection of checks, the
System should move in the direction of eliminating deferred avail-
ability altogether. The only argument against such a policy, he
said, would be the charge that the System was competing with the
large city banks, but the Board felt that as it was the responsi-
bility of the System to hold the bank reserves of the country there
was no objection to encouraging membership in the System in order
more effectively to perform that function.
Mr. Peyton suggested that, instead of following the course proposed by the Board, consideration be given to eliminating deferred availability altogether and requiring each member bank to maintain an average balance with the Federal Reserve Bank, in addition to its required reserve, which would be equal to the average amount of uncollected funds in the member bank's account.

Chairman Eccles expressed the belief that that arrangement would not make membership attractive to the smaller banks.

The discussion developed that the Federal Reserve Bank of Cleveland in 1939, when the maximum deferment was fixed at three days, under an interpretation of the Board's regulation, issued an operating letter authorizing its member banks to send in two cash letters, one containing items for immediate credit and another containing all other items for which credit was given in two days regardless of the time required to collect them.

Mr. Gidney stated that, while the interpretation under which this practice was adopted had seemed to him at first thought to involve a very liberal interpretation of the 1939 understanding, the Cleveland bank has found that it gained by this arrangement in the matter of float absorbed because 1-day items more than offset 3-day items when received together in a single letter for two day deferred credit. For this reason, he now believes that the action of the Cleveland bank is in accordance with the understanding of 1939 that
credit could be given on cash letters for average availability, and that it is not different from what other Reserve Banks permit without formal announcement in a number of cases. He stated that of 198 member banks which send checks to the head office of the Federal Reserve Bank, 115 do so in accordance with the above, mentioned option. This method is practically the same, he said, as the proposals at pages 17-18 of the report of the Committee on Collections, dated January 31, 1947, and, in view of the favorable experience of Cleveland, he would advocate System-wide adoption of such proposals unless a better plan can be devised. He expressed interest in Mr. Peyton's suggestion as offering a new approach which may result in a practical solution of the old problem.

Mr. Gilbert expressed the opinion that a reduction in the maximum deferment to two days would not encourage banks to send items to the Federal Reserve Banks as the member banks were more interested in reducing the number of "sorts" required by the Federal Reserve Banks. Other Presidents questioned whether such a change would be effective in influencing banks to join the System.

Mr. Leedy pointed out that the proposals set forth in the report of the Committee on Collections did not provide for a maximum deferred period of two days, but for a flat deferment of two days. This meant, he said, that items now being deferred one day would be deferred an additional day, and that only items now being
deferred three days would be credited any earlier. He questioned whether there should be any lengthening whatever of the time that credit for cash items becomes available. Further, it was his view that many banks would not avail themselves of the proposed plan. He thought that this would be the case in his district, where he said a recent survey had disclosed that the total of items deferred one day averages more than three times the total of items deferred three days. In such a situation he thought it doubtful that member banks would elect to take deferment of an additional day for the larger volume of items in exchange for one day's earlier credit for the smaller volume, along with being relieved of the requirement as to sorts. It was these considerations, he said, which influenced him in favoring a further study of the entire subject.

Following a discussion of the proposals contained in the report of the Committee on Collections, Mr. Sproul stated that the Presidents had felt that the Federal Reserve Banks should not compete with correspondent banks in laxity in order to encourage banks to become members; that, however, the question of competition was a subordinate one; that the System should take steps wherever and whenever possible to shorten the actual time for the collection of checks, but that an arbitrary two-day maximum deferment might delay the actual presentation of checks and thus be a backward step from the standpoint of the banking system as a whole; that the idea of
member bank reserves was that they should consist of actually collected funds, and that to increase the amount of uncollected funds in member bank reserve balances would in no way improve the System. He also said that even if the two-day maximum deferment would reduce the number of "sorts" of checks prior to receipt by the Federal Reserve Banks, it would increase their work materially, and through greater centralization might result in less efficiency and more expense than under the present arrangement. He questioned whether the System should proceed in the direction of reducing maximum deferment faster than it could reduce the time required for the collection of checks. With this thought in mind, he said, the Presidents had referred the matter back to the Committee on Collections with instructions to study it further in the light of suggestions made during the Presidents' Conference and it was believed that it would be unwise to take the steps proposed by the Board without further study.

Chairman Eccles inquired whether the Presidents felt that as a matter of principle float should be kept at a minimum, and in the discussion of this point it was stated that a number of the Presidents would favor complete elimination of deferred availability if a satisfactory basis for such action could be developed which some of the Presidents believed could be done. Mr. Leach stated that two-day maximum deferment would transfer a considerable amount of work to the Federal Reserve Banks,
that the Federal Reserve Bank of Richmond was already receiving cash letters from small banks in its district subject to two days deferred credit but without requiring that the items be sorted, and that he hoped that action could be deferred on the Board's proposal until an answer could be presented which would provide a satisfactory solution for the whole problem.

Mr. Farhart stated that his Bank was giving credit on small country item cash letters on the basis of the average time required for collection.

Chairman Eccles stated that it appeared that the Federal Reserve Banks were not following a uniform policy at the present time and that the Board should ascertain what the practices at the respective Reserve Banks were.

At the conclusion of the discussion, there was unanimous agreement among the Presidents and the members of the Board that the matter should be referred back to the Presidents' Conference Committee on Operations and its subcommittee on Collections with the understanding (1) that at the next meeting of the Presidents and the Board a report and recommendation would be made by the Presidents, and (2) that the Board would ask its own staff to make a study of the matter and the Board would send to the Presidents any suggestions or proposals that it might wish to have considered prior to the submission of the Presidents' report. It was also
2/28/47

understood that complete information should be obtained by the Board from the Federal Reserve Banks as to what their present practices were in order that a proper informational basis might be laid for the later discussions.

3. Job evaluation and classification. The report dated February 11, 1947, by the Subcommittee of the Committee on Personnel was presented to the Conference by the Committee on Personnel. Copies of the report have been made available to the Board. The Conference recommends the acceptance of a plan of salary administration for the Reserve Banks as outlined in the report.

Chairman Eccles stated that the general framework of the report of the subcommittee of the Committee on Personnel dated February 11, 1947, was acceptable to the Board with the understanding that the minimum and maximum salaries for the salary grades provided in the plan, as referred to in paragraphs numbered 4 and 5 on page 3 of the report, would be subject to approval by the Board after reviewing the data submitted by the Federal Reserve Banks with respect to local salary and wage situations. He also said that every effort should be made to complete the work on the classification plan by the time of the next meeting of the Presidents' Conference and that it should be understood that the Board would not be expected to approve more than a maximum number of three or four over-all salary scales which would cover all of the Federal Reserve Banks and their branches.
Mr. Williams stated that it was the understanding of the Presidents' Conference Committee on Personnel and the other Presidents that the plan and salary scales as finally submitted would be subject to approval by the Board.

On the question of the number of over-all salary scales, Mr. Williams expressed the opinion for the Presidents that it would be better to approach that problem by undertaking to fit the salary scales to the salary data that would be submitted rather than trying to fit the data to a certain preconceived number of scales.

Chairman Eccles stated that the Board wanted to discuss the matter with the Presidents at this time so that the Presidents would understand that the Board was looking toward only three or four salary scales for all of the Federal Reserve Banks and branches.

There was agreement on the part of the Presidents and the members of the Board that the new classification plan should be put into effect by July 1 of this year.

4. Frequency of pay days. The Conference discussed the increasing practice of many business concerns of paying employees on a bi-weekly or a weekly basis rather than on a semi-monthly basis, as is the practice with respect to most Reserve Bank employees. There was substantial sentiment in the Conference in favor of paying salaries on a bi-weekly or weekly basis, but it was pointed out that if this were done there may be some administrative problem incident to making various monthly reports to the Board.
Chairman Eccles stated that the Board favored the payment of salaries on a bi-weekly or weekly basis if it could be worked out satisfactorily from an administrative standpoint.

5. Credit control proposals. The Conference received and discussed the report dated January 21, 1947, entitled "Analysis of Credit Control Proposals" prepared by the Committee on Banking and Credit Policy and submitted to the System Research Advisory Committee and to the Presidents' Conference Committee on Research and Statistics. The Conference considered it desirable that, as suggested by the Committee on Banking and Credit Policy, there be further immediate study of the interrelated problems of credit control and debt management, and that with respect to longer range problems emphasis be placed on a study of the primary and secondary reserve plans, with the object of determining more definitely their limitations and the adaptations which might be made to eliminate their defects. It was also suggested that a study of commercial bank earnings, both present and prospective, would be desirable. The Presidents would like to be informed of the Board's present views with respect to the credit control proposals suggested in its 1945 Annual Report, and of its intentions with respect to furthering their consideration by the Congress.

Chairman Eccles stated that the Board accepted the report, dated January 21, 1947, entitled "Analysis of Credit Control Proposals" prepared by the Committee on Banking and Credit Policy, and that the Board agreed that further study was desirable as proposed by the Presidents' Conference. He also said that the Board's views with respect to the credit control proposals suggested in its Annual Report for 1945 were the same as when the proposals were made and that the Board had no intention of urging
their consideration by Congress. He added that since the report was sent to Congress it had not been necessary to take action with respect to the short-term rate on Government securities, to sell additional securities in the market to relieve the pressure on the long-term rate, or to seek further legislation by the Congress, and that this situation was largely due to the Treasury program for the retirement of public debt which had absorbed a substantial amount of member bank reserves. However, he said, looking to the future, the pressure on the long-term rate might be resumed as a result of member banks "playing the pattern of rates" in which event the System and the Treasury would be confronted with three alternatives. First, the System could let the short-term rate go up in order to stop further monetization of the debt and to relieve pressure on the long-term rate. The suggested program with respect to Treasury bills was to place the System in a position to permit an increase in the short-term rate. That action would deal with the cause. Secondly, the Treasury could put out additional long-term securities but that would be dealing with effects rather than causes and would not ultimately be effective. It would also result in increased cost of carrying the Government debt. The third alternative, Chairman Eccles said, was that the System could go to Congress and urge legislation in line with that proposed in the Board's Annual Report. He went on
to say that the System had submitted a report and it was up to
the Congress to determine whether it wished to pass legislation
which would give the Board authority to prevent banks from "playing
the pattern of rates" with the resulting pressure on long-term
rates, and that if legislation were not passed the System would
be in a position, having served notice on Congress, to raise the
short-term rate.

6. Fortnightly establishment of rates. The
Conference reviewed the recommendation made at its
meeting on June 8, 1946, that at the first oppor-
tunity there be sought an amendment to section 14(d)
of the Federal Reserve Act to provide for the estab-
ishment of rates by the Reserve Banks once during
any calendar month rather than every fourteen days,
and that there should be an alertness to seek such
opportunity. It recalled the statement by Chairman
Eccles at the joint meeting of the Presidents and
the Board of June 11, 1946, that the Board would be
favorable to such a step. The Conference wishes to
reiterate its earlier recommendation that an oppor-
tunity be sought to obtain such an amendment to the
law.

Chairman Eccles stated that the Board continued to be in
favor of a change in the law on this subject but that the matter
was not sufficiently important to request an amendment at this
session of Congress, that such a request would raise a number of
questions which should not be raised at this time, and that fur-
thermore the System would be fortunate if active consideration
was given to the legislation that had already been proposed.
He also said that there were several other amendments that were
more urgent and desirable than this one.
Mr. Sproul suggested that because the amendment would be unimportant and noncontroversial it probably could be passed without difficulty. Chairman Eccles responded that it might be made the occasion for raising numerous questions with respect to discount rates and other related matters which would be controversial.

There was a brief discussion of some of the difficulties being experienced by some of the Federal Reserve Banks in complying with the requirement of the law that discount rates be fixed every fourteen days, and ways were suggested in which these difficulties might be met.

7. Consumer Credit—Regulation W. The Conference considered the control of consumer credit. The Conference reiterates the view expressed at its last meeting that the Board should follow up the recommendation contained in its 1945 Annual Report and press for a legislative decision one way or another at the earliest practicable time on continuation of consumer credit control. It was pointed out that the problem of enforcement has been increasing and will continue to increase so long as the regulation of consumer credit is based on an Executive Order and is administered in the light of wartime needs. It was suggested that the Board and the Banks review together the matter of qualitative credit controls in peace time.

Chairman Eccles stated that recently he had a conference with Congressman Wolcott, Chairman of the House Banking and Currency Committee, during which the latter indicated that at the appropriate time he would be willing to introduce a bill for the purpose of getting the problem of consumer credit before Congress,
and requested that the Board prepare a bill. Chairman Eccles stated that he told Chairman Wolcott that the Board would prepare a draft of bill which would be a streamlined version of what would be required in the law if it was to be effective. He added that he also told the Congressman that if Congress failed to act the Board would request the President to revoke the Executive Order on which Regulation W was based and that it would not be necessary for Congress to pass legislation for that purpose. What the Board might do, Chairman Eccles said, would be to send the bill which was being prepared to Congressman Wolcott with an accompanying statement, which would be released to the press, and which would set forth the reasons for the proposed legislation and would state that if action were not taken by Congress at this session the Board would request the President to revoke the Executive Order. Chairman Eccles went on to say that if Chairman Wolcott preferred some other procedure, the Board would follow his wishes but it would like to bring about a situation in which the public would know that, if Congress failed to act and if an inflationary situation should develop, the responsibility would not rest with the Board.

Following a further amplification by Chairman Eccles of his conversation with Chairman Wolcott, Mr. Williams raised a question as to the likelihood of active consideration being given
by the committees of Congress to all aspects of the credit situation at this session and Chairman Eccles stated that, if the Chairman of the committees should indicate that the Congress had not had time to act at this session and would like the Executive Order to continue until the matter could be considered, the Board would proceed accordingly.

Mr. Sproul suggested that the System should see to it that some Congressional consideration was given to the problem of consumer credit so that the Board and the Reserve Banks would not be in a position of having the legislation fail because of a Congressional "pocket veto". He also said that the Presidents had in mind that in the future Regulation W should apply to the areas of consumer credit where a large volume of credit could have a material effect on the economic situation and should abandon the controls which were in effect during the war which were in the nature of nuisance items and which made the regulation impossible of enforcement.

Chairman Eccles responded that the present regulation had about reached that point and that the Board could not go much further in that direction.

Reference was made to the statement that was being made to the Federal Reserve Banks and the Board that individuals with small incomes were being prevented from purchasing automobiles
by the down payment and maximum maturity prescribed by Regulation W. Chairman Eccles stated that regardless of the terms of the regulation, all of the automobiles that were being produced were being sold as rapidly as they came off the production line, that if the regulation were liberalized it would serve only to increase the demand for automobiles and delay a reduction in prices, and that such action would result in a greater number of individuals of low income committing their future incomes for the payment of automobiles at maximum prices.

Mr. Whittemore stated that there were a number of complaints in his district because people whose old cars were worn out and who needed transportation in connection with their work were prevented from acquiring new cars by the regulation.

Chairman Eccles responded that if the Board relaxed the present requirements there would still be people who could not meet them and that if the argument were followed to its conclusion the restrictions of the regulation would be removed altogether. He also suggested that the administration of the regulation was an unpleasant job and that unless Congress would take responsibility on the question of policy the Board should not be asked to continue the regulation.
8. Collateral to secure uninvested trust funds.

The Conference considered a suggestion that Section 9(b) of Regulation F be amended so as not to require the pledging of collateral to secure that portion of uninvested trust funds which are insured by the FDIC. It also considered a suggestion that condition of membership No. 6 for State member banks, set forth in Section 6(b) of Regulation H, be amended so as not to require such banks to follow the same practice as national banks in securing uninvested trust funds where the laws of the particular State contain other, but nonetheless adequate, safeguards. The Conference felt that this matter should receive the consideration of the Board.

Chairman Eccles stated that the first of the above suggestions would not be possible under existing law. As to the second suggestion, he stated that the Board had asked the Federal Reserve Banks for suggestions as to changes in the standard conditions of membership, that the replies of the Banks were now being received, and that the suggestion that condition numbered 6 be changed would be carefully considered in the revision of the membership conditions which it was hoped could be completed shortly.

9. Interlocking relationships with security concerns.

The Conference had called to its attention several examples of inequitable operation of Section 32 of the Banking Act of 1933 as amended and the Board's regulation thereunder. It was suggested that there be an amendment which would authorize the Board to permit specific relationships. It was generally felt, however, that the question presented was a broader one, that is, whether the administration of the law in substantially its present form is desirable or whether it would be preferable as a matter of public policy for the law to be repealed. Accordingly, the subject was referred to the Committee on Legislation for study.
Chairman Eccles stated that the Board had no objection to the Committee on Legislation studying this matter further but believed that such a study at this time would not be productive of any affirmative results, that Section 32 was recently tested in the Supreme Court and the Board felt it would be a mistake to suggest a change in it at this time, and that the section was one of the important pieces of legislation that came out of the experience of the late twenties and the Board felt that the restrictions provided by the law should continue to be strictly applied. He also said that the Board would have difficulty in stating reasons for liberalization of the section at this time.

There was a brief discussion of the reasons for the adoption of Section 32, and Mr. Whittemore stated that he had suggested that there be such a change in the law as would permit the Board to allow interlocking directorships in a case where it was clear that it would not be detrimental to the bank involved. Chairman Eccles stated that the Board had discretion to grant permits in individual cases prior to the amendment to this section made by the Banking Act of 1935, that the Board had found that the law in this form had been extremely difficult if not impossible to administer, and that for that reason the Board had suggested that the statute be amended to give the Board authority only to issue general regulations which would not require consideration of individual cases.
10. Examination policy with respect to member bank loans. Reference was made at the meeting of the Conference to the experience after World War I when there was great pressure for the liquidation of bank loans secured by commodities and livestock because of the precipitous decline in the market value of such collateral; and there was a discussion regarding the appropriate attitude of supervisory authorities to help avoid a repetition of this situation. It was pointed out that the best way to help prevent a repetition would be to exercise restraint while prices are still high, and that banks should be cautious in extending credit on commodities and livestock at present high prices. The Conference wishes to discuss with the Board the appropriate attitude of the supervisory authorities as regards the handling by commercial banks of commodity loans currently and in the event of a substantial decline in the market price of commodities.

Chairman Eccles stated that there were now outstanding two or three statements issued by the bank supervisory agencies based on war conditions, that the Board believed that it would be desirable for the three agencies to cancel these statements and issue a new statement or statements of policy in the light of existing conditions. He also said that the Board would undertake to prepare a statement of its views so that when the matter was taken up with the other two agencies it would be in a position to state what it felt the current policies should be.

Mr. Sproul stated that such action would be in accordance with the views of the Presidents.
11. Administration and enforcement of Regulations T and U. At its last meeting the Conference proposed a liberalization of the provisions of Regulations T and U regarding the substitution of securities in under-margined accounts. At the joint meeting of the Presidents and the Board on October 10, 1946, Mr. Draper stated that the Board was favorably disposed to this proposal but that the question of its adoption was largely one of proper timing. There has been no liberalization of the provision regarding substitutions, although the recent amendments giving securities a loan value of 25 per cent of their current market value does to some extent facilitate substitutions in those accounts which are fully margined under the new requirements. The Conference feels that further consideration should be given to a relaxation of the restrictions regarding the substitution of securities in under-margined accounts.

Chairman Eccles stated that the question of action to liberalize the provisions of the regulations relating to the substitution of securities in under-margined accounts (the incidental squeeze) was one of proper timing and that the Board felt that the present was not the proper time for such action.

Mr. Draper pointed out that when margin requirements were reduced from 100 per cent to 75 per cent the "incidental squeeze" had been greatly liberalized in its application and that with the present unstable movements of commodity prices the Board should not take any action which would have the appearance of further relaxation of the regulation.

Chairman Eccles stated that the purpose of the rule was to tighten the regulation in order to prevent further inflationary and speculative trading in under-margined accounts, that the psycholog-
ical effect of eliminating the rule would not be good, but that if margin requirements were later further reduced such action would, in its practical effect, eliminate the rule.

Mr. Sproul stated that the restriction on substitutions is an irritant which interferes with the administration of the major control and that it would be preferable to modify the restriction at this time without waiting to reduce margin requirements. Chairman Eccles stated that the Board would continue to consider the matter but that it was not felt that the discontinuance of the rule would satisfy brokers and security dealers who wanted to get as low a margin requirement as possible.

12. Relations with the Board. The Conference believes that the Board should give reasonable advance notice to the Reserve Banks regarding amendments to the Board's regulations and other material to be released to the press. Since the last meeting of the Presidents' Conference there have been three amendments to the Board's regulations. In all three cases, the Reserve Banks were advised of the amendments late in the day and this is particularly true in the case of the last amendment which pertained to Regulations T and U. Late advice involves a weakening of the position of the Reserve Banks in their communities and administrative difficulties and inconveniences. Reasonable advance notice will help the Banks do a better job to the greater credit of the Board, the Banks, and the whole System. If it is felt that particular material is highly confidential, it should be possible to inform the Presidents personally of the proposals a reasonable time in advance of their release, so that preliminary plans may be made for prompt and effective functioning on the part of the Reserve Banks.
Chairman Eccles stated that when the matter on which action was taken by the Board was not confidential, the Board would give the Federal Reserve Banks as much notice of the proposed action as possible, but that when the action was highly confidential, as was the case with the recent amendments to Regulations T and U, the Board could not give the Banks advance notice. He also said that there was an alleged leak when these amendments were adopted and the Board was severely criticized for it, and that it felt that in the future there should be no decisions or action taken on matters of this kind until after the markets were closed so that no one in the Board's organization or at the Federal Reserve Banks could be accused of a leak before the official announcement was made.

Chairman Eccles reviewed in detail the circumstances under which the Board's action with respect to the amendments to Regulations T and U was taken and announced. Mr. Sproul stated that the Presidents were aware of the position of the Board in situations of this kind, but felt that it would have made a great deal of difference to the Banks if they could have had advice in some form immediately after the close of the market even though they had to await detailed advices. He said that in this case they did not get the wire advice until after five o'clock, which made it unnecessarily difficult to have the proper staff on duty to handle the matter and to make arrangements for printing circulars. In such circumstances,
also, some officers of the Banks did not know about the change until they were questioned about it the next morning by outsiders.

Mr. Williams stated that there had been nonconfidential matters on which wire advice was sent to the Federal Reserve Banks at the same time it was given to the press, and that it would be helpful if the Banks could be advised in advance on such matters.

Mr. Carpenter stated that it was the intention to see that wire or letter advice reached the Federal Reserve Banks as early as possible, at least by the time the matter was given to the press, and that it would be appreciated if any case in which that did not occur were brought to the Board's attention.

13. Expenditures of the Federal Reserve Banks. The Conference discussed the Board's letter, S-958, of February 4, 1947, requesting the Reserve Banks to put a budget system into effect promptly. The Presidents concur in the desirability of submitting estimates of expenses to the Board. Many of the Reserve Banks have continued to prepare such estimates for internal use even though they were not submitted to the Board during the war period. The Presidents are apprehensive, however, lest the program indicated in the Board's letter S-958 interfere with the administration of the Banks. They feel that the Board and the Banks should endeavor to work out together a program for the preparation and submission of estimates of expenses which will involve a minimum of interference with the operations of the Banks.

Chairman Eccles stated (1) that the Board would like to know what the Presidents had in mind in connection with the above statement, and (2) that the Board believed that, if anything, it
had been derelict in not requiring budgets from the Federal Reserve Banks, that it was its intention in the future to follow a tight budget procedure in connection with all expenditures of the Federal Reserve Banks, and that the likely alternative to such a procedure would be that the Reserve Banks would be placed under the Budget Bureau and perhaps under the General Accounting Office. He also said that he had recently received a letter from Mr. LaGuardia, former Congressman, in which he stated that expenditures of Federal Reserve Banks should be approved by Congress and that he was going to advocate in a radio address that that be done.

Mr. Sproul stated that 70 per cent of the expenditures of the Federal Reserve Banks consisted of salaries, that 20 per cent additional was made up of noncontrollable expenditures, and that the budget procedure would be applicable largely in connection with the remaining 10 per cent. He also said that the requirement that the Board be advised in advance when it appeared that expenditures would exceed the budget estimates would mean an unnecessary interference with the operations of the Federal Reserve Banks, that the Federal Reserve Banks were not in the position of Government departments and agencies which would have no funds available beyond the authorized appropriations, and that the Presidents felt that the estimates of expenditures should be handled in such a way
that it would not be necessary to clear a possible excess over the estimates with the Board in advance.

Chairman Eccles stated that such a procedure would not mean anything from a budget standpoint, that while the Board approved salary scales it did not approve the number of employees that a Bank might have, and that an effective budget procedure would mean that it would have an opportunity to look into the total cost of a function.

Mr. Sproul then said that the Presidents did not see how the Board could determine from Washington how many people should be employed by a Bank for a given function, to which Chairman Eccles responded that it could be done as effectively as was being done by the General Accounting Office at the present time. Mr. Sproul questioned the effectiveness of the Government procedure and Chairman Eccles said that the Board could not abdicate its responsibility for the approval of salaries and general supervision of the Federal Reserve Banks, and that it was necessary that the Board be in a position to say to Congress that, as its agent, the Board was doing as effective a job of supervision as could be done by the Budget Bureau and the General Accounting Office. Unless the Board followed a reasonably tight budget procedure, he said, it could not avoid criticism for failing to exercise the supervision which it was felt would be the only
defense the System would have against the other alternatives that might be adopted by Congress.

Mr. Sproul suggested that the Committee on Operations of the Presidents' Conference work with the Board's staff for the purpose of developing as effective a budget procedure as possible, and that if the Board was to avoid getting involved in a lot of detail without firsthand knowledge of the Banks' operating problems it should have competent men on its examination staff who could check into the budgetary side of operations.

Chairman Eccles said that the proposed procedure contemplated that that would be done.

Mr. Earhart stated that his Bank would like to have a very tight budgetary procedure in so far as department managers were concerned in order to get the most from them, but that, if there should be any difficulty in prompt adjustment of budget estimates to meet changed conditions, there would be a tendency to put the budget figures high enough to meet that situation.

Chairman Eccles recognized that that was one of the dangers in a budget which should be watched and avoided, and stated that the Board would want to be lenient until it had gained more experience and could develop a sound procedure and the necessary data on which to base comparisons between the different Federal Reserve Banks.
Mr. Gilbert stated that the Presidents felt the Board was better qualified to pass on Federal Reserve Bank expenditures than any other agency and would rather have the Board perform that function, but that there should be sufficient flexibility to enable the Banks to take care of any contingencies that might arise.

Mr. Whittemore expressed the opinion that it was desirable for the Banks to have a tight budgetary procedure in order to prevent undesirable situations from developing, but that the success of any procedure would depend on (1) an efficient budget man at the Federal Reserve Bank, and (2) the willingness of the Board to give almost immediate answers on any request for changes in the budget.

Chairman Eccles assured the Presidents that the Board recognized the necessity of setting up a procedure in its own offices which would handle the Banks' requests promptly.

Mr. Sproul suggested that before the procedure was finally determined upon, the Presidents' Committee on Operations work with the Board's staff for the purpose of developing the best possible Procedures.

Chairman Eccles stated that the Board at all times would welcome any advice or suggestions that the Presidents or the Committee on Operations might wish to offer on any of the questions that might be raised.
14. **Directors fees.** The Conference discussed the Board's letter, S-959, dated February 7, 1949, approving a schedule of maximum fees and allowances for the Reserve Banks and branches within which payments may be made to the directors without further action from the Board of Governors. Some of the Reserve Banks which have customarily paid branch directors the same fee as the directors at the head office feel that a fee of $50 for head office directors is appropriate, and they consider it unfortunate that they may not pay branch directors as much as head office directors under such circumstances.

Chairman Eccles stated that the Board's action was taken after consideration of the suggestions of the Chairmen of the Federal Reserve Banks, and that the point raised by the Presidents was thoroughly considered, particularly in the light of the difference in the responsibility of the directors of the head office and of the branches. He also said that the Board saw no reason for making any change in the schedule of fees which had been approved. He added that, if the directors felt that the head office and branch directors should have the same fee, that could be accomplished by authorizing a $30 fee for both classes of directors.

Mr. Leedy stated that the matter had been discussed by the board of directors of his Bank and he had been requested to take it up with the Board, but that as it appeared to be a matter of System interest he thought it might be properly placed on the agenda for the Presidents' Conference. He said that the attitude of his directors was that heretofore the fees paid to head office and branch directors had been uniform, that in any event the fee paid was only
a token payment and not compensation for the services rendered particularly in the case of directors who had to travel long distances, and that if there were a differential between head office and branch director fees it would only serve to further minimize the importance of their job in the minds of the branch directors. He recognized that on the basis of responsibility there was no justification for paying the branch directors the same fee as the head office directors, but stated that his directors felt that, inasmuch as the fee was only a token payment and the same fee had been paid to both in the past, the maximum fee permitted by the Board's letter should be paid to the branch directors as well.

Some of the Presidents expressed the opinion that there should be some differential between the head office and branch directors and Chairman Eccles stated that the Board had taken into consideration all of the points advanced by the Presidents and felt that the schedule of fees set forth in its letter was a reasonable compromise.

15. Precautions against robbery. The Conference considered the Board's letter of February 19, 1947, with respect to information received by the Federal Bureau of Investigation regarding plans for robberies of messengers delivering money to and from a Federal Reserve Bank branch and requesting that the Presidents discuss the matter of precautions against robbery. The Conference feels that it would be desirable (a) for the Reserve Banks (other than those which have already done so) to have a survey made by the Federal Bureau of Investigation of the practices of the Reserve
Banks in handling money and securities, and (b) for the Reserve Banks, working through their bank relations departments or otherwise, to conduct an educational campaign among member banks to encourage the use of adequate safeguards in handling money and securities.

Chairman Eccles stated that the above proposal was satisfactory to the Board and that, in addition, it was giving consideration to requesting the Federal Bureau of Investigation to discuss with the American Bankers Association what further steps might be taken such as including information in the protective bulletins issued by that Association.

Referring to the letter from the Director of the Federal Bureau of Investigation which gave rise to this matter, Mr. Earhart stated that the letter contained some inaccuracies, that the practice of local banks in Seattle was to use armored cars whenever the values involved were large, and that messengers were used in cases where collection letters and securities were insured and the banks could rely on the protection of insurance.

Chairman Eccles stated that if there were losses it would result in increases in the insurance rates to all banks and in danger of loss of life, and that, therefore, the System was very much interested in adequate protection.

President Young stated that the action of the Presidents' Conference contemplated that the whole problem would be studied by the Insurance Committee of the Presidents' Conference.
16. Periodic reports on banking conditions. The Conference considered the Board's letter, S-953, dated January 27, 1947, requesting the Reserve Banks to furnish the Board quarterly with material about banking conditions in their respective districts. In view of some degree of skepticism among the Presidents as to utility of such reports, the Presidents would like to discuss with the Board the material it desires and what use it proposes to make of the material.

Chairman Eccles said that, as stated in the Board's letter of January 27, 1947, this arrangement was an experiment which the Board would like to try, that it was hoped that the information on banking and other matters which the Reserve Banks found useful in connection with their activities would be helpful to the Board as background in appraising information coming to it from other sources, and that if the arrangement did not prove helpful it would be discontinued. He also said that it was not the intention that a large volume of written material would be furnished but only those items which in the judgment of the Reserve Banks would be of immediate interest. He went on to say that one of the Federal Reserve Banks had already reported informally that it had a substantial amount of material which had not been organized and made use of by the Bank and that the request of the Board would put the information in a form which would be helpful to the officers. He emphasized that the arrangement was not a mandatory one and that if a Federal Reserve Bank did not have anything to send in it would not make a report.
Mr. Sproul stated that some information was received by the Banks orally and informally and might be passed on to the Board in the same way, but that if it were sent to the Board in a formal way, in writing, the sources of the information might dry up. This, he said, is one of the things the Presidents wished to guard against.

17. Absorption of exchange charges. The Conference suggests that the Board of Governors discuss with the board of directors of the Federal Deposit Insurance Corporation the matter of absorption of exchange charges, with a view to endeavoring to persuade the FDIC to reverse the position previously taken by it that under its regulations the absorption of normal and customary exchange charges does not constitute the payment of interest on demand deposits. In the event the FDIC does not change its position, it may be desirable to ask the Congress for clarifying legislation so as clearly to prohibit or permit the absorption of exchange charges.

Presidents Leach and McLarin stated that they would have to leave shortly and would appreciate it if the above subject could be next discussed.

Chairman Eccles stated that he had discussed with Mr. Wiggins, the new Under Secretary of the Treasury, how this problem might best be met.

Mr. Davis stated that the problem in his district could be met satisfactorily if the FDIC would adhere to the position, taken when its regulation was originally adopted, that the absorption of exchange as a consideration for the maintenance of a balance would be regarded as a payment of interest. He said that the Federal Re-
serve Bank of St. Louis had presented to the local office of the FDIC a great deal of evidence over the past two years that one nonmember bank in the Eighth Federal Reserve District was indulging in this practice but that no action had been taken by the Corporation.

Mr. Leach stated that there were two such cases in his district and Mr. McLarin said that there were three nonmember banks in his district which were following the same practice.

Chairman Eccles stated that, if the Federal Reserve Banks had not already done so, they should send this information to the Board and that it was believed that Mr. Wiggins, with his background of wide national service, would be interested in trying to find a solution.

It was understood that Messrs. Leach, McLarin, and Davis would send to the Board complete information with respect to the cases to which they had referred and that the Board would take the matter up with the Treasury and the Federal Deposit Insurance Corporation.

At this point Messrs. Leach and McLarin left the meeting.

13. Industrial loans. The Conference noted that the bill S. 408, 80th Congress, introduced by Senator Tobey, although responsive to some of the suggestions of the Presidents, does not give effect to certain recommendations made by the Conference at its last meeting, regarding legislation on this subject, which a number of the Presidents still believe are important.
Specifically, they feel that there should be reference to the inability of borrowers to obtain requisite financial assistance from the usual sources, that the Reserve Banks should be authorized to make direct advances, and that it would be preferable for financial institutions seeking a Reserve Bank guarantee, to assume at least 20 per cent of the risk. The Conference is interested in hearing from the Board regarding the omission of these proposals and regarding the legislative situation of the bill S. 408.

Chairman Eccles stated that the Board felt that it would not be possible at this Congress to get authority for direct loans by the Federal Reserve Banks, and that the System should make up its mind whether it wanted legislation in the form proposed in S. 408 or no legislation at all.

Mr. Sproul inquired whether the Board would be willing to include in the bill the requirements (1) that financial institutions seeking a Federal Reserve Bank guarantee should assume at least 20 per cent of the risk, and (2) that guarantees could be given only when borrowers were unable to obtain the requisite financial assistance from the usual sources.

Chairman Eccles expressed the opinion that it would not be possible to get the legislation if the first requirement were included and he stated that if the present bill were adopted the Federal Reserve Banks would have discretion as to the amount of risk that should be assumed by the financing institution.

Mr. Sproul stated that if the two requirements were not included it would subject the Federal Reserve Banks to considerable
pressure and Chairman Eccles stated that it might be possible to include the provision with respect to inability of the borrower to obtain necessary credit from the usual sources on reasonable terms.

Messrs. Eccles and Draper referred to the experience under Regulation V in connection with V, VT, and T loans and stated that if the legislation were adopted with the 90 per cent provision the Board in its regulation would fix a graduated scale of commitment fees which would discourage financing institutions from asking for the higher guarantees.

Mr. Gilbert stated that there should be an understanding that the requirement with respect to the availability of credit from the usual sources should not be interpreted to mean that it could be used by banks to exceed their legal loan limit and that in peace time it should not be the purpose of the law to guarantee loans in excess of a bank's legal loan limit.

Chairman Eccles stated that he would be agreeable to interpreting the requirement as not permitting a guarantee when a financing institution could arrange for a participation in the credit with a correspondent bank.

Mr. Leedy stated that it was extremely important that the Board indicate that it would be agreeable to such an understanding and that the understanding might mean that objections that other-
wise would be made to the bill would not be raised. On the other hand, he said that some small banks felt they should not be forced to go to their correspondent banks in order to arrange a credit, for the reason that frequently it had been the experience of such banks, when they participated in a loan with a correspondent bank, that the next loan to the same concern was made by the correspondent bank and the small bank was left out entirely.

Mr. Williams expressed the opinion that it would be desirable if small banks were encouraged to collaborate in making loans of this kind. Mr. Gidney concurred in this position.

There was a further discussion of this point and the members of the Board indicated that they would like to leave the matter open for further consideration.

19. Capital requirements of member banks without branches. The Conference believes that the Federal Reserve System should be able to make its own determinations concerning the eligibility of State banks for membership, without being tied either to the FDIC or to the national banking system. It does not, however, see any need to eliminate entirely a statutory minimum capital requirement for membership in the System, and it favors fixing this minimum at $25,000. The Conference suggests that the tenth paragraph of Section 9 of the Federal Reserve Act be amended so as to read substantially as follows:

"No applying bank shall be admitted to membership in a Federal Reserve Bank unless it possesses a paid-up unimpaired capital of at least $25,000 and such additional capital funds as the Board of Governors of the Federal Reserve System may deem adequate in view of all the facts"
"and circumstances affecting the applying bank, including the volume and character of its assets and deposit liabilities."

Mr. Gidney stated that this legislation was very badly needed and that he hoped the Board would give careful consideration to it.

20. Payment of portion of Reserve Bank earnings to Treasury. The Conference considered various methods proposed for channeling Reserve Bank earnings to the Treasury, including:

(a) The restoration of the franchise tax;
(b) The imposition by the Board of an interest charge on Federal Reserve notes not secured by gold certificates; and
(c) The performance of all fiscal agency operations without reimbursement.

On the basis of their present knowledge a majority of the Presidents favor restoration of the franchise tax with appropriate provisions to assure the maintenance of adequate surplus by the Reserve Banks and to safeguard against encroachment by the General Accounting Office.

Chairman Eccles stated that the Treasury would not consider a change in the 3/4 per cent rate on Treasury bills unless it was assured that the resulting increase in the cost of the Government debt would be returned to the Treasury. He also said that if the franchise tax could be reinstated without legislation that would be a desirable thing to do, but that the suggestion of such legislation would raise a lot of questions such as Federal Reserve Bank earnings, the dividend on Federal Reserve Bank stock, who owns the Federal Reserve Bank stock, expenses of the Federal Reserve Banks,
and other matters; that the absorption by the Federal Reserve Banks of the fiscal agency expenses incurred for the Treasury (but not including those incurred for Government corporations) would not be a complete solution of the problem, and that the most readily available solution would be to impose an interest charge on Federal Reserve notes under the provisions of Section 16 of the Federal Reserve Act. In addition, he said, the System could absorb the fiscal agency expenses of the Treasury which would result in a lower interest charge on Federal Reserve notes.

In response to an inquiry as to how the Presidents felt on this subject, Mr. Sproul stated that a majority of the Presidents favored a franchise tax. They thought the use of interest on uncovered Federal Reserve notes for this purpose was not intended by the law and that it would raise public questions affecting public confidence in our currency. They also felt that the absorption of fiscal agency expenses would enable the Treasury to spend money without going through the customary appropriation procedure, and that the procedure, therefore, would probably not be acceptable to the Treasury; that it would divorce the party incurring expenditures from responsibility for meeting the costs of such expenditures, and that it would establish an undesirable relationship between the Treasury and the Federal Reserve System.
There was a discussion of whether the law contemplated that the Federal Reserve Banks would make charges against the Treasury for fiscal agency expenses and whether, if the costs were absorbed by the Federal Reserve Banks, the Treasury would increase the volume of such expenses. On the latter point, Chairman Eccles stated that it would have to be understood that the volume of expenses would not be increased and that no new functions would be undertaken by the Federal Reserve Banks without prior approval. The matter was also considered from the standpoint of good accounting and budgetary procedure.

Mr. Gidney stated that some of the Presidents favored action to provide a procedure which would include the imposition of an interest charge on Federal Reserve notes and the absorption of Treasury fiscal agency expenses. This comment was followed by a discussion, in the light of the authority given to the Comptroller General by legislation enacted in 1946, of the extent to which such action would affect the question of the Federal Reserve Banks being subjected to the Budget Bureau and the General Accounting Office.

Mr. Sproul suggested that an effective argument could be made for not subjecting the Federal Reserve Banks to the Budget Bureau and the General Accounting Office without adopting the procedure mentioned by Mr. Gidney and stated that in discussions with Mr. Bartelt, Fiscal Assistant Secretary of the Treasury, the latter
was hopeful that changes in procedure now being considered would be effective in satisfying the Comptroller General with respect to fiscal agency expenditures of the Federal Reserve Banks.

Chairman Eccles stated that apparently the Presidents did not feel much concern about the questions that would be raised in connection with legislation to reimpose the franchise tax and that so far as he was concerned if that was what the Presidents wanted he would not oppose it.

Mr. Sproul stated that he felt that the System could effectively answer any such questions that were raised.

Messrs. Draper and Evans stated that they would be opposed to legislation at this time.

The Presidents inquired what Chairman Eccles would prefer and he stated that he would not have any difficulty in undertaking to defend an arrangement under which the Federal Reserve Banks would absorb the fiscal agency expenses incurred for the Treasury and the Board would impose an interest charge on Federal Reserve notes under Section 16 of the Federal Reserve Act. However, he would not undertake that program unless the Treasury felt it was a desirable thing to do.

Mr. Sproul stated that the authority to impose an interest charge on Federal Reserve notes was put in the law for an entirely different purpose and should not be used to transfer earnings of
the Federal Reserve Banks to the Treasury, that to use the author-
ity in the manner proposed might mean the imposition of different
interest charges for the different Federal Reserve Banks, and that
that raised a number of undesirable questions.

Chairman Eccles stated that it was the feeling of the Board's
staff that by the allocation of securities in the System account in
accordance with the procedure approved by the Federal Open Market
Committee it probably would be possible to impose the same interest
charge on all Federal Reserve Banks. He also said that if it were
decided to follow this course he could go to the Banking and Curr-
ency Committees and ascertain their views and whether they would
prefer this course to the reimposition of the franchise tax.

After some further discussion, Chairman Eccles suggested
it be understood that the imposition of an interest charge on Fed-
eral Reserve notes would be adopted if after further study no fur-
ther objections were found and if it were favored by the Chairmen
of the Banking and Currency Committees of Congress, and that if
there were objections to the procedure from that source a franchise
tax would be proposed. With respect to the absorption of Treasury
fiscal agency expenses, he suggested that that be discussed with
the Treasury for the purpose of ascertaining what its preference
would be, it being understood, however, that there would be no
increase in the volume of such expenses or the undertaking of any
new functions without prior approval of the System, and that if
at any time the earning position of the Federal Reserve Banks
should so require, the payment of fiscal agency charges by the
Treasury would be resumed.

These suggestions were discussed and there were differ-
ences of opinion among the Presidents as to the course that should
be followed.

The point was brought out that if there should be a sub-
stantial importation of gold or return flow of currency, the amount
of Federal Reserve notes not secured by gold could be reduced very
greatly so that the interest charge necessary to accomplish the
purpose under discussion would be very high. It was suggested,
however, that it probably would be some time before that occurred
and that the arrangement would be an effective method of meeting
the problem for the time being.

There was some further discussion but no conclusions were
reached.

21. The problem of excess reserves. Although at
the time of the Wagner Questionnaire the problem of ex-
cess reserves was a difficult one, the situation with
respect to excess reserves has changed so substantially
since that time that they are no longer a problem.

It was agreed that no action was required in connection
with this topic.
22. The gold problem. It is the view of the Conference that, in the interest of allaying fears of action by the United States that might set in motion competitive devaluation of currencies, and of maintaining or increasing the monetary use of gold and promoting the stabilization of currencies, it would be desirable for our Government to consider taking action along the following lines:

(a) Revise paragraphs 8 and 9 of the Gold Reserve Act to eliminate what is now frequently construed as authority to the Secretary of the Treasury to change the price of gold at will;

(b) Revise Treasury regulations to give foreign governments and central banks a general license to buy or sell gold in the United States, or to exempt them from the licensing procedure (except where an Axis interest in the gold has been, or may be involved);

(c) Reduce materially the handling charge on purchases and sales of gold.

It was agreed that as these matters were being studied by the Board, the Federal Reserve Banks, and the Treasury no action by the Presidents and the Board at this time was necessary.

Secretary's note: Because of the late hour no consideration was given to the remaining topics contained in the Presidents' memorandum relating to (1) composition of the boards of directors of the Federal Reserve Banks and (2) the dividend rate on Federal Reserve Bank stock.

Thereupon the meeting adjourned.

Approved:  

[Signature]

Chairman.