

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, July 18, 1947. The Board met in the Board Room at 10:40 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. Evans
Mr. Vardaman
Mr. Clayton

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Thurston, Assistant to the Chairman
Mr. Smead, Director of the Division of Bank Operations
Mr. Vest, General Counsel
Mr. Nelson, Director of the Division of Personnel Administration
Mr. Millard, Assistant Director of the Division of Examinations
Mr. Townsend, Assistant General Counsel

Chairman Eccles reported that it now appeared that the holding company legislation now pending before Congress would not be passed at this session owing to the fact that Transamerica Corporation had requested an opportunity to testify before the House Banking and Currency Committee next week, which would mean that the Committee would not be able to complete hearings and present the bill in time for passage by the House prior to adjournment at the end of the week.

With respect to Regulation W, Consumer Credit, Chairman Eccles reported that pursuant to the understanding at the meeting of July 11, 1947, he had discussed with the White House the question whether the Executive Order, under which the regulation had been

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issued, should be vacated without waiting for further action by the Congress, and that he had been informed subsequently that the President had decided that he would not take any action on the matter until after it was determined what form action by Congress would take. There was a discussion of whether a wire should be sent to the Federal Reserve Banks suggesting that they discontinue their activities in connection with the enforcement of Regulation W, but it was felt that no such action should be taken at this time.

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Atlanta, Chicago, St. Louis, Kansas City, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of Kansas City on July 12, by the Federal Reserve Banks of St. Louis and San Francisco on July 16, by the Federal Reserve Banks of New York, Philadelphia, Atlanta, and Chicago on July 17, 1947, and by the Federal Reserve Bank of Boston today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

In connection with the above action there was a brief discussion of whether, in view of the rise in Treasury bill rates following the action of the Open Market Committee in eliminating the fixed buying and repurchase option rate earlier this month, consideration should be given at this time to an advance in the discount

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rates at the Federal Reserve Banks. It was the view of the Board members present that no change in discount rate should be made unless and until the rate on Treasury certificates was increased from its present level of $7/8$ per cent, and that the matter should be considered at the meeting of the Board with the Presidents of the Federal Reserve Banks to be held early in October.

Reference was made to a memorandum prepared by Mr. Smead under date of July 11, 1947, with which he submitted a draft of statement with respect to possible changes in the uniform check collection circulars of the Federal Reserve Banks to provide for the acceptance of unsorted cash items under certain conditions and to shorten the maximum time for deferment of credit for items collected through the Federal Reserve check collection system. The draft of statement had been prepared in the light of the discussion at the last Presidents' Conference, and Mr. Smead stated that he would like to discuss the statement with representatives of some of the Federal Reserve Banks before submitting it to the Board in final form.

The statement contained the following recommendation, which was read and discussed:

"After reviewing this subject in the light of the views expressed by the Board and by the Presidents at their June 1947 Conference, I should like to submit the following for the consideration of the Board:

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1. That Federal Reserve Banks authorize member banks and nonmember clearing banks to send them a daily average of as many as 200 items without sort of any kind for one day's deferred credit.
2. That if a member or a nonmember clearing bank sends a daily average of more than 200 items to the Federal Reserve Bank it be required to sort such items as follows:
 - Immediate credit items.
 - Deferred credit items (for two days' deferred credit), provided, however, that if a member bank wishes to sort one-day items separately it shall be given one day's deferred credit for such items.

"Under the above suggestions banks would be expected to send substantially all of their out-of-town items to the Federal Reserve Bank for collection.

3. That member and nonmember clearing banks having a daily average of more than 300 items payable in the territory of any one other Federal Reserve Bank or branch (including other offices in the same district) be
 - (a) requested to route such items direct,
 - (b) advised that if such items are deposited with their own Federal Reserve Bank or branch credit therefor will be deferred one additional day, and
 - (c) told that the Reserve Banks reserve the right to require member banks sending large volumes of cash items to the Federal Reserve Banks for collection to route such items direct to the Federal Reserve Bank or branch of the territory in which the items are payable.
4. That Federal Reserve Banks continue their present efforts to speed up the collection of checks by the use of air transportation.

"If these suggestions were adopted, it is not believed that the daily average amount of 'float' of the Federal Reserve Banks would be increased by more than around \$200 million. The float that would result from a reduction in the

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"maximum period of deferment to two days was estimated by the Committee on Collections at about \$187 million."

There was a discussion of (1) Mr. Evans' opinion that the check collection system should be changed to provide for immediate credit on all cash items sent to the Federal Reserve Banks for collection, and (2) the extent to which maximum deferment of cash items could be reduced at this time. It was pointed out that the Federal Reserve Banks were not equipped to handle the volume that would result from accepting all items for immediate credit without prior assortment, and that it would not be practicable to take action at the present time which would go much beyond that suggested in the above recommendation. There was also discussion of (1) the effect that changes of this character in the check collection system would have on the operating expenses of the Federal Reserve Banks, (2) how effective they would be in making membership in the System more attractive, and (3) the timing of the effective date of any such change.

Chairman Eccles stated that the giving of immediate credit for all items would increase very substantially the amount of credit extended by the Reserve System through float, and that if it were given on a uniform basis to all banks, there was a question whether it would make membership more attractive to smaller banks than it is under the present system, inasmuch as large city banks

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would then continue to urge smaller banks to send them cash items for collection because they would be able to give immediate credit on such items without disadvantage to themselves by depositing them at the Federal Reserve Banks for collection.

Upon motion by Mr. Vardaman, it was agreed unanimously that Mr. Smead should discuss the statement attached to his memorandum with the Chairman of the Presidents' Conference Committee on Collections and with such operating officers of other Federal Reserve Banks as he saw fit, and that after these discussions he would resubmit the matter to the Board for further consideration and approval of a proposal for a discussion with the Presidents at the time of the next Presidents' Conference. It was understood that if at that time the Presidents expressed objection to the Board's proposal they would be asked to prepare an alternative proposal at the next succeeding Presidents' Conference.

There was then presented a memorandum from Mr. Szymczak prepared under date of July 15, 1947, in which it was recommended, for the reasons stated therein, that the Board indicate that it would not approve certain changes in the Federal Reserve retirement system benefits which had been discussed informally at the time the trustees of the retirement system met in Washington in June and which had been sent to the Board for informal consideration in a letter dated June 13, 1947, from Mr. Rounds, Chairman of the Retirement Committee.

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The proposed changes were as follows:

1. Change the basis of the pension benefit (for future employees) from a $3/4$ per cent cash refund settlement to a one per cent straight life settlement without the privilege of converting to a cash refund basis. Actuarially the $3/4$ per cent cash refund plan is the equivalent of approximately $9/10$ per cent on a straight life basis so that if this change were to be made the pension benefit would be increased somewhat.

If the above change were adopted, certain collateral changes would also be necessary, the most important of which were:

2. The minimum benefit which is now expressed as \$24 for each year of service up to twenty years, or \$480 per annum upon a cash refund basis, would be restated as \$30 for each year of service up to twenty years, or \$600 per annum on a straight life basis. The change would be slightly more than the actuarial equivalent of the present cash refund benefit.

3. The present limitation of \$6,000 on a cash refund basis, which is fixed as the maximum normal pension payable to any member, would also be changed to a comparable figure on a straight life basis. The actuarial equivalent of \$6,000 would be about \$7,200 and a figure of \$7,500 would be suggested as the revised maximum normal pension in terms of round figures.

After a discussion of the reasons which had been advanced for and against the proposed changes, upon motion by Mr. Szymczak, the following letter to Mr. Rounds was approved unanimously:

"The Board has considered the amendments to the Rules and Regulations of the Retirement System as proposed in your letter of June 13, 1947, and, while it is sympathetic to your desires to see that retiring employees select the mode of settlement which is most advantageous to them, it would appear that this objective can, to a considerable

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"extent, be accomplished under the present rules and regulations by a full explanation of the benefits to employees at the time of retirement, without changing the standard form of benefit offered.

"The Board does not feel justified in approving at this time the proposed benefits which would increase the liability of the Retirement System. While it is recognized that the proposed changes will not of themselves increase the contribution rate of the Federal Reserve Banks, they will absorb what will otherwise be an apparent saving to the System, which at this time does not seem desirable."

Mr. Evans referred to the fact that the retirement fund was not earning the 3 per cent on which the liabilities of the retirement system were based and he raised the question of the nature of the Board's responsibility for the investment policies of the retirement system and what, if any, action the Board should take in that connection. There was a discussion of the investment policies followed by the retirement system in the past and the manner in which these policies had been carried out. It was the consensus of the members present that the Board did have some responsibility for these policies particularly for the reason that, if the retirement system failed to earn at a rate which would enable it to discharge its liabilities, the Federal Reserve Banks and the Board would be called upon to make additional contributions to the fund which would have to be approved by the Board. It was the feeling of the members present that the policy followed in the past should have included provision for investment in Federal Housing Administration mortgages and additional amounts of long-term Government securities

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and that steps should be taken to see that a more effective policy was followed in the future.

At the conclusion of the discussion, it was understood that Mr. Szymczak, in consultation with the appropriate members of the staff, would look into the problem of how the investment policies of the retirement system should be formulated and approved, and that when that had been done the matter would be placed on the agenda for further consideration by the Board.

Mr. Clayton referred to the understanding reached at the meeting on July 11 with respect to the proposal for designation of reserve cities that would be submitted to the Presidents of the Federal Reserve Banks and the Federal Advisory Council, and stated that Messrs. Smead, Vest, and Townsend had since suggested that further consideration be given to the matter, and that their specific proposals were contained in a memorandum dated July 17, 1947, reading in part as follows:

"The members of the staff who have considered this matter wish to express the following opinion to the committee of Board Members on the subject:

"That the preferable action for the Board to take in order to settle the problem now confronting it is to amend Regulation D so as to provide that reserves shall be maintained against deposits received by each office of a member bank according to whether or not such office is located in a reserve city or a nonreserve city.

"If the Board, in addition to amending the Regulation, wishes to change the reserve city designations, that a formula should be adopted of say 1/4 or 1/5 of

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"1 per cent of interbank deposits and all cities having less than that amount of deposits would be terminated as reserve cities and all cities having more than that amount of deposits would be retained or designated as reserve cities."

Mr. Vest stated that the above opinion was expressed because it was felt that the preferable action would be for the Board to amend Regulation D, Reserves of Member Banks, to require reserves according to whether the office of a bank was located in a reserve city or a non-reserve city, and that if the Board did not feel such action was desirable and decided to adopt a new formula for the designation of reserve cities, it would be better to have a fixed percentage in the formula which would provide that all cities having less than a certain amount ($1/4$ or $1/5$ per cent) of interbank deposits of the entire country would be terminated as reserve cities and all cities having more than that percentage would be required to continue as reserve cities.

Chairman Eccles stated that an amendment to Regulation D such as that proposed would not establish a standard for designating reserve cities, that the Board should establish such a standard, that he felt it was only a matter of time until Regulation D would be amended to provide that reserves be based upon the location of deposits, but that adoption of such an amendment was not desirable at this time because of the addition it would make to member bank reserves under present inflationary conditions and because it would not be appropriate to make such a change at a time when the bank

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holding company legislation was still under consideration by Congress and the Lakewood Village case was before the courts.

With respect to a fixed dividing line in the formula by which reserve cities would be determined, it was the consensus of the members of the Board that a "twilight zone" such as was contained in the proposal agreed upon in the meeting of July 11 was desirable, and that a formula such as had been agreed upon at that meeting would establish a satisfactory standard for determination of reserve cities.

It was agreed unanimously that a draft of a letter to the Presidents of the Federal Reserve Banks and the Federal Advisory Council along the lines agreed upon at the meeting of July 11 should be prepared and submitted to the Board.

At this point Messrs. Smead, Vest, Nelson, Millard, and Townsend left the meeting, and the action stated with respect to each of the matters hereinafter set forth was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on July 17, 1947, were approved unanimously.

Memorandum dated July 14, 1947, from Mr. Thomas, Director of the Division of Research and Statistics, recommending the appointment of Miss Sophia Cooper as a research assistant in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,770.20 per annum, effective as of the date upon which she enters

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upon the performance of her duties after having passed the usual physical examination. The memorandum also stated that Miss Cooper was a member of the Civil Service retirement system and would remain in that system.

Approved unanimously.

Letter to Mr. Sproul, Chairman of the Conference of Presidents, reading as follows:

"Reference is made to the approval by the Conference of Presidents at its June 4, 1947, meeting of the recommendation of the Committee on Personnel that the banks discontinue the practice of making regular contributions on a special military schedule for employees on military service to provide full creditable service for the period of such military service, with the understanding that upon the return of an employee from military service, the bank will make a special contribution to cover the service for the period of absence, or the current rate of the bank's contribution will be adjusted to cover the cost.

"As you know, the plan for uniform treatment of employees at the Federal Reserve Banks who may be called for military service adopted in October 1940, as amended, included certain benefits in addition to those required under the Selective Training and Service Act of 1940. Inasmuch as there does not appear to be the same occasion for the granting of such additional benefits as there was when the above-mentioned uniform plan was adopted, it will be appreciated if you will have placed upon the program for the forthcoming Presidents' Conference for consideration the subject of the discontinuance of such additional benefits, with the specific question as to whether the granting of service credit under the Retirement System for military service and the reimbursement for the cost of premiums on National Service Life Insurance should not be discontinued as of January 1, 1948, in respect to any military service thereafter."

Approved unanimously.

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Letter prepared for Chairman Eccles' signature to Mr. Prentiss M. Brown, Chairman of the Board, The Detroit Edison Company, Detroit 26, Michigan, reading as follows:

"I have had an opportunity to bring to the attention of the Board your letter of July 15 advising of your election as a director of the National Bank of Detroit and inquiring whether you should resign as a director of the Detroit Branch of the Federal Reserve Bank of Chicago.

"The information given you by Mr. Harris with respect to the provisions of the Board's regulations is correct and it has been the policy of the Board in the selection of new directors of branches of Federal Reserve Banks not to appoint men who were directors of commercial banks. However, the regulations were intentionally written in the form quoted in your letter so as to permit exceptions to that policy in proper cases and the policy generally has not been applied in cases where an individual who was not a director of a commercial bank at the time of his appointment as a branch director but subsequently accepted a commercial bank directorship.

"In the circumstances, the members of the Board in Washington are unanimous in their request that you continue to serve the branch until the end of the current year when the term of your appointment as a director will expire. The Board appreciates very much the willingness indicated in your letter to conform to the policies established by the Board and it hopes that notwithstanding the new responsibility that has come to you as a director of the national bank, you will be able to find time until the end of your present term to continue the fine service you are rendering as a director of the Detroit Branch."

Approved unanimously.

Letter to Mr. Albert D. Graham, Chairman of the Board, First National Bank, Baltimore 3, Maryland, reading as follows:

"This refers to your letter of July 1, 1947, regarding the practice which is being followed by a member bank in Baltimore of accepting nonpar items free of exchange. It is understood that the member bank forwards

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"such items for collection to certain nonmember banks which, in return for the maintenance with them of compensating balances, remit at par for such items to the member bank.

"Since the member bank in question does not itself absorb exchange charges, it does not appear that there is involved a payment of interest by a member bank in violation of the law or the Board's Regulation Q. We feel, however, that the practice is an undesirable one, since it lends support to the making of exchange charges by nonmember banks and encourages the circuitous routing of checks. The practice obviously grows out of the fact that the regulations of the Federal Deposit Insurance Corporation regarding nonmember insured banks do not prohibit the absorption of exchange charges.

"As you know, both member and nonmember banks are prohibited by law from paying interest on demand deposits and it is the Board's position that the absorption of exchange charges as compensation for the use of funds is a payment of interest within the meaning of the statutory prohibition. The Federal Deposit Insurance Corporation, however, has adopted a contrary position in applying the law to insured nonmember banks and this situation still continues.

"We have consulted with the officers of the Federal Reserve Bank of Richmond regarding the problem which you present and so far as we know there are only two nonmember banks in the Fifth District which engage in the practice of absorbing exchange charges for correspondent member banks as described in your letter. Inasmuch as the law limits the deposit balance which a member bank can maintain with a nonmember bank to 10 per cent of the member bank's capital and surplus, the extent to which a member bank can resort to the practice to which you refer is limited by the amount of its capital and surplus and the number of nonmember banks which would be willing to enter into such an arrangement. We hope, therefore, that the practice will not grow and that it will not be followed by other institutions. We appreciate your writing us about this matter and hope that you will decide that the competitive situation resulting from the practice is not so significant as to cause you or other Baltimore banks to adopt the practice."

Approved unanimously.

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Letter to Mr. McConnell, Vice President of the Federal Reserve Bank of Minneapolis, reading as follows:

"This refers to your letter of June 26, 1947, transmitting copies of the report of examination of Bank Shares Incorporated, Minneapolis, Minnesota, as of April 14, 1947, and requesting that we advise you whether the Board has any objection to your furnishing a copy of the report to Mr. R. S. Beatty, District Chief National Bank Examiner.

"It is noted that national bank examiners participated in the examination of the holding company and made simultaneous examinations of its two subsidiary national banks. In the circumstances, you are authorized to furnish a copy of the report of examination of the holding company to the Chief National Bank Examiner at Minneapolis, if he requests it, for his confidential information and use.

"It is suggested that, at the time of transmission of the report to the District Chief National Bank Examiner, you inform him that the report will not be submitted to Bank Shares Incorporated, in order that he may govern himself accordingly in the confidential use of the report."

Approved unanimously.

Letter to Mr. Sihler, Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"This refers to your letter of July 5, 1947, with which you enclosed a copy of a letter from the Chicago Stock Exchange forwarding a memorandum entitled 'Plan for Improving Markets on the Chicago Stock Exchange'. The Chicago Stock Exchange wishes to know whether the proposed plan is consistent with Regulation T.

"The plan is intended to reduce the cost of clearing certain trades of 'floor members', that is, members who initiate trades on the floor for their own account and who do not transact a business in securities with the public. It would apply only to floor members' 'in and out' trades which do not involve the receipt or delivery of securities. Under the plan such trades would be cleared directly by the Clearing Corporation, thus changing the present practice by which they are cleared through a clearing member. The memorandum indicates that the

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"change would eliminate certain bookkeeping steps, and the resulting costs, that are incident to the present method of clearing such transactions.

"On the basis of the facts presented in the memorandum, the Board is of the opinion that the proposed plan does not conflict with the present provisions of Regulation T."

Approved unanimously.

Letter to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

"This refers to Mr. Wiltse's letter of April 9, 1947, and enclosures with regard to the question whether the firm of Merrill Lynch, Pierce, Fenner & Beane is primarily engaged in the types of business described in section 32 of the Banking Act of 1933. The question arises because of the service of Mr. Samuel L. Fuller as a director of The Commercial National Bank and Trust Company of New York, and as a partner in the firm of Merrill Lynch, Pierce, Fenner & Beane. In this connection we note that in 1944 your bank informed Mr. Fuller that such firm should not be regarded as primarily engaged in the types of business described in section 32. We also observe that representatives of your bank have had more recent discussions with Mr. Fuller with regard to this matter.

"The Board wishes to review this matter and accordingly, it will be appreciated if your bank will communicate with Mr. Fuller and, after referring to your previous correspondence with him on this subject, advise him on behalf of the Board that the Board expects to give consideration to the question whether his service as a director of The Commercial National Bank and Trust Company of New York and as a partner in the firm of Merrill Lynch, Pierce, Fenner & Beane is in conformity with section 32 of the Banking Act of 1933, and that the Board will be glad to consider any information or statements which he may care to submit with regard to this question. Please also advise Mr. Fuller that if he wishes to submit any such information he should furnish the same to your bank for transmission to the Board as soon as practicable and within 30 days following your letter to him."

Approved unanimously.

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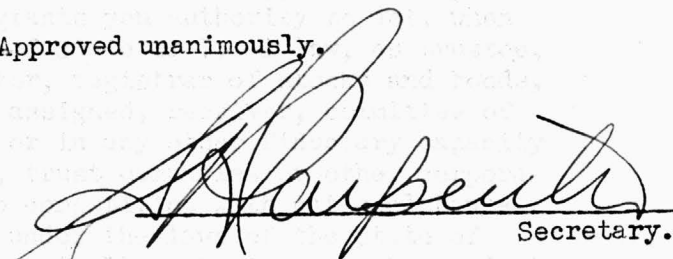
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Letter to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

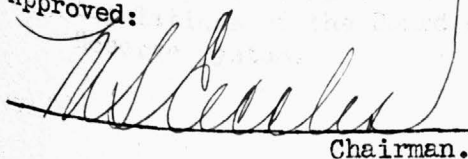
"Reference is made to Mr. Wiltse's letter of April 16, 1947 and subsequent correspondence with regard to the question whether the firm of Dominick & Dominick is primarily engaged in the types of business described in section 32 of the Banking Act of 1933. The question arises because of the service of Mr. Bernon S. Prentice as a special partner of the firm of Dominick & Dominick and as a director of the Fulton Trust Company of New York, a member of the Federal Reserve System. In this connection we note that your bank has advised Mr. Prentice that this service is not prohibited by section 32.

"The Board wishes to review this matter and accordingly, it will be appreciated if your bank will communicate with Mr. Prentice and, after referring to your previous correspondence with him on this subject, advise him on behalf of the Board that the Board expects to give consideration to the question whether his service as a special partner of Dominick & Dominick and as a director of the Fulton Trust Company of New York is in conformity with section 32 of the Banking Act of 1933, and that the Board will be glad to consider any information or statements which he may care to submit with regard to this question. Please also advise Mr. Prentice that if he wishes to submit any such information he should furnish the same to your bank for transmission to the Board as soon as practicable and within thirty days following your letter to him."

Approved unanimously.


Secretary.

Approved:


Chairman.