

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, December 5, 1947. The Board met in the Board Room at 11:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Smead, Director of the Division of Bank Operations
Mr. Bethea, Director of the Division of Administrative Services
Mr. Vest, General Counsel
Mr. Nelson, Director of the Division of Personnel Administration

There were presented telegrams to the Federal Reserve Banks of Boston, Philadelphia, Atlanta, Chicago, St. Louis, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on December 2, by the Federal Reserve Banks of Philadelphia, Atlanta, and Chicago on December 4, 1947, and by the Federal Reserve Banks of Boston and St. Louis today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

There was presented a telegram to Mr. Clarke, Assistant Secretary of the Federal Reserve Bank of New York, reading as follows:

12/5/47

-2-

"Board of Governors has approved effective December 8, 1947, elimination of your Bank's maximum commitment rate of one-fourth per cent per annum or in the alternative a flat fee of not to exceed \$50 on Section 13b loans guaranteed under Regulation V. Otherwise Board of Governors of the Federal Reserve System approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule, advice of which was contained in your telegram dated December 4."

Approved unanimously.

Chairman Eccles expressed the view that consideration should be given shortly to an increase in the discount rate in effect at the Federal Reserve Banks in line with the seven-point program that was discussed at the last meeting of the Federal Open Market Committee, and that in discussions of this matter with the Presidents of the Federal Reserve Banks next week, the Board should take the position that sometime before the end of the year action should be taken by the Federal Reserve Banks and the Board to advance the discount rate at least to 1-1/4 per cent. He also suggested that, in discussing reserve requirements, the Board take the position that reserve requirements of central reserve city banks should not be increased in the immediate future owing to the fact that there would be considerable pressure on the reserves of those banks because of seasonal demands for currency during December and because of heavy tax collections and retirement of bank-held Government securities which would continue until around the end of March 1948, and

12/5/47

-3-

the effect of an increase in reserve requirements during this period would be to cause the banks to sell Government securities to the Reserve Banks in order to obtain the additional required reserves. He felt that at that time the matter should be re-viewed again on the basis of conditions then existing, including any change in total bank loans outstanding.

In this connection, Chairman Eccles stated that he had had an exchange of correspondence with Mr. Sproul on the question whether the discount rate should be raised to 1-1/8 or to 1-1/4 per cent, Mr. Sproul taking the position that the increase should be to 1-1/8 per cent and he taking the position that it should be to 1-1/4 per cent. He outlined the reasons which Mr. Sproul and he had given in the correspondence for their respective positions, and these reasons were discussed by the Board. At the conclusion of the discussion, the other members of the Board expressed concurrence with Chairman Eccles as to the position to be taken by the Board in discussions of this matter with the Presidents next week.

Under date of December 1, 1947, Mr. Rouse, Vice President of the Federal Reserve Bank of New York, advised that following announcement of an increase in acceptance rates by dealers, the Reserve Bank had increased its currently effective buying rates on bankers acceptances to 1-1/8 per cent on maturities up to 90

12/5/47

-4-

days, 1-1/4 per cent on maturities up to four months, and 1-3/8 per cent for five and six months maturities, that the sales contract rate had been increased to 1-1/8 per cent, and that the buying rate on trade acceptances had been fixed at 1-1/2 per cent. The wire also said that for the present at least the Bank did not contemplate increasing the minimum buying rate of 1 per cent.

At this meeting there was a discussion of whether it would be desirable for the Board to eliminate the minimum buying rate for acceptances purchased by Federal Reserve Banks and instead require that changes in acceptance buying rates be approved by the Board before they become effective, as is the case with other rates at the Federal Reserve Banks. Chairman Eccles stated that he felt the matter was not of substantial importance since the acceptance buying rate had little practical effect at the present time, and also because the approval of a minimum rate by the Board accomplished its purposes under present circumstances as well as would the approval of specific buying rates. He said that a related question had to do with the level of the minimum acceptance buying rate, which is now 1 per cent, and he suggested that a letter be written to Mr. Sproul informing him that the Board felt that the approved minimum rate should not be below the rate of discount in effect for discounts of and advances to member banks secured by eligible paper.

12/5/47

-5-

Chairman Eccles' suggestion was approved unanimously.

Mr. Carpenter read a memorandum prepared under date of November 13 by Mr. Szymczak with respect to the suggestion made at the meeting on November 4, 1947, that consideration be given to a change in the Federal Reserve retirement system which would permit an employing Bank during a period of high employment to retain the services of an employee until he reached the age of 70 in any case where his health was good and his abilities were not impaired. The memorandum stated that the Federal Reserve Banks may now retain officers and employees in active service up to age 70, provided the Board's approval is obtained for each year's extension over 65, and that for the following reasons there should be no relaxation in the present policy with respect to retirement at age 65: (1) The general trend throughout the banks has been one of retrenchment, and there is little evidence that the banks are experiencing any manpower shortage. (2) The retention in service of older employees would impede the progress of younger employees with promise. A certain amount of turnover is to be desired. (3) If a more liberal policy were adopted there might be a tendency on the part of more employees to request that they be carried on for their own personal reasons and thereby make it more difficult for the Banks to effect retirement at age 65.

12/5/47

-6-

The memorandum recommended that, inasmuch as the Federal Reserve Banks may, under the present procedure, continue employment of officers and employees beyond age 65 in certain circumstances, no change be made in that procedure.

Chairman Eccles expressed the opinion that if an officer or employee were continued in service beyond age 65 he should be required to elect retirement benefits and his salary should be reduced by an amount equal to the retirement allowance.

Mr. Evans stated that he was opposed to continuing people in active service beyond the age of 65 in the absence of very exceptional circumstances.

After a discussion, upon motion by Mr. Vardaman, the recommendation contained in Mr. Szymczak's memorandum was approved unanimously, with the understanding that a letter would be written to the Presidents of all Federal Reserve Banks informing them that hereafter the compensation of any person retained in active service for more than 90 days after attaining age 65 should not be more than the salary as of the date of retirement less retirement benefits.

Mr. Evans referred to the rule set forth in the letter (S-816) sent by the Board to the Chairmen of all Federal Reserve Banks under date of December 21, 1944, that, with respect to the appointment of Class C directors and directors of branches of the Federal Reserve Banks, the Board, as a general policy, would not

12/5/47

-7-

appoint as a director anyone who was 70 years of age or who would become 70 prior to the expiration of his term. He said that the Personnel Committee recommended that an exception to this rule be made in the case of Mr. Creighton, whose term as Class C director and whose designation as Chairman and Federal Reserve Agent at the Federal Reserve Bank of Boston would expire on December 31, 1947, and who would be 69 years of age at that time.

During a discussion of changes that might be made in the rule, Mr. Szymczak stated that he believed the rule to be a good one, and that it would be a mistake to make an exception to it.

With respect to a suggestion that a new rule be adopted, Mr. Szymczak said that a change in the rule to enable the Board to make an exception to the existing rule would cause difficulty for the Board in the future, particularly in connection with the reappointment of Presidents of Federal Reserve Banks, and that if a new rule were to be proposed the matter should be explored fully before it was adopted.

Mr. Vardaman expressed the opinion that it would be a mistake to make an exception to the rule, but that he believed there should be no age limit applicable to Class C directors or directors of branches appointed by the Board.

Mr. Evans stated that his reason for suggesting that an

12/5/47

-8-

exception be made to the rule in this instance was that Mr. Creighton had been a good Chairman, that the Federal Reserve Bank of Boston had under way a building program in which Mr. Creighton had taken an unusually active interest, and that there was no other qualified and suitable person known to be available and willing to accept the Chairmanship of the Federal Reserve Bank of Boston at this time.

Mr. Clayton added that if Mr. David, Deputy Chairman of the Boston Bank, would accept the Chairmanship he would be opposed to making an exception in this case, but that Mr. David would not accept that designation and that there was some doubt as to whether he would be willing to continue as a Class C director because of the pressure of other work, and that therefore he favored continuing Mr. Creighton as a director and Chairman and Federal Reserve Agent.

Chairman Eccles said that he would not favor a change in the corollary rule that precluded the appointment of full-time Presidents and First Vice Presidents of Federal Reserve Banks after they were 65, but that entirely aside from the Boston situation and the suggested reappointment of Mr. Creighton, he felt there was justification for a change in the rule as applied to Chairmen and Class C directors or branch directors who serve on a part-time basis and need not have the physical vigor and stamina that a full-time operating officer should have.

12/5/47

-9-

There was a discussion of Chairman Eccles' suggestion that the rule be modified on the grounds that it handicapped the Board in appointing men who would make excellent Chairmen or Class C directors.

Upon motion by Mr. Vardaman, it was agreed that the rule stated in the letter dated December 21, 1944, (S-816) should be amended to provide that, as a general policy, the Board would not hereafter appoint as a director of a Federal Reserve Bank or branch an individual who was 70 or more years of age or who would become 70 prior to the expiration of the term for which he would be appointed, and it would not hereafter reappoint as a director an individual who was 70 or more years of age.

On this action Mr. Szymczak voted "no".

The meeting then recessed and reconvened at 4:30 p.m. with the same attendance as at the end of the morning session, except that Messrs. Vardaman and Bethea were not present and Mr. Thurston entered the meeting during the discussion.

Mr. Carpenter read a memorandum from Mr. Szymczak dated November 17, 1947, which had been prepared as a result of the discussion of the investment policy of the Federal Reserve Retirement System at the meeting of the Board on October 31, 1947. The memorandum discussed two proposals: (1) That the management of the investments for the Retirement System be placed with the

12/5/47

-10-

Federal Reserve Bank of New York as agent for the Retirement System. (2) That investments of the Retirement System be confined to obligations of the United States, International Bank for Reconstruction and Development, and Federal Housing Administration insured mortgages. After commenting upon these proposals, the memorandum recommended that no specific action be taken by the Board at this time with respect to (1) transferring the management of the investments of the Retirement System from The Northern Trust Company of Chicago to the Federal Reserve Bank of New York, (2) limiting investments to Government and Government-guaranteed securities, and (3) the policy of investing in common stocks, but that the whole subject of investments be discussed openly and fully at the next Presidents' Conference, after which the Board could decide what recommendation to make to the Board of Trustees of the Retirement System.

Chairman Eccles stated the reasons for his opinion that the management of the investments for the Retirement System should be placed with the Federal Reserve Bank of New York as agent for the Retirement System and that the investments should be confined to United States government securities and obligations guaranteed by the Government, including Federal Housing Administration insured mortgages and securities of the International Bank for

12/5/47

-11-

Reconstruction and Development which would be coupled with an understanding or guarantee that if, on this basis, the Retirement System could not meet its liabilities, the Federal Reserve Banks and the Board would make good any deficiency in earnings in order to maintain benefits on the existing 3 per cent basis. He stated that such a procedure seemed to him to be the only alternative to putting the Retirement System on a self-supporting basis, with the understanding that the Banks and the Board would make fixed contributions and that no additional payments would be made, in which event it would be necessary to reduce the interest base from the present 3 per cent level to such amount as would be justified by earnings on investments. He added that it was his feeling that the present policy of purchasing common stocks for the retirement fund was subject to criticism in view of the possibility of incurring substantial losses, and that he felt it should be discontinued.

Mr. Szymczak raised the question whether the alternative of leaving the Retirement System free to invest in higher yielding securities would not be preferable to restricting investments as proposed by Chairman Eccles, since such an investment policy and a guarantee of the retirement benefits would increase deficiencies in earnings substantially. While he was willing to

12/5/47

-12-

concur in the majority view of the Board, he preferred to continue the existing policy.

There was a general discussion of the points of view in the light of the responsibility of the Board for the investment of funds in the Retirement System, at the conclusion of which it was agreed unanimously that a memorandum outlining the changes proposed by Chairman Eccles and the reasons therefor would be prepared and used as a basis for discussing the matter with the Presidents next week.

Mr. Szymczak stated that he had also recommended in his memorandum of September 8, 1947, that (1) the Board change its representative on the board of trustees of the Retirement System every three years in order that every member of the Board would have an opportunity to serve in that capacity and to become familiar with the operations and management of the Retirement System, and (2) that the trustee appointed by the Board should report to the Board or to a committee of the Board such as the Personnel Committee on matters that were coming up in the Retirement System which might be of interest to the Board or to the staff.

Chairman Eccles stated that in view of the contemplated changes, he felt it was desirable that Mr. Szymczak serve for at least another year as the Board member on the board of trustees and that the matter of rotating membership might be considered again

12/5/47

-13-

after the proposed changes in investment procedure had been decided upon.

It was agreed unanimously that action on the two recommendations last referred to should be deferred until a decision was reached on future investment policy.

There was also a discussion of whether the Board representative on the board of trustees of the Retirement System should be a member of the investment committee and upon Mr. Szymczak's recommendation, it was agreed unanimously that such membership was not necessary at this time.

Mr. Szymczak read the following draft of letter to Senator Clyde M. Reed:

"This letter is in response to your telephone request for information with respect to the proposal for designation of reserve cities published by the Board of Governors in the Federal Register on October 24, 1947. A copy of the notice published in the Register is enclosed for convenient reference. As stated in the notice, the Board's action was taken under the provisions of Section 11(e) of the Federal Reserve Act, which authorizes and empowers the Board of Governors of the Federal Reserve System -

'To add to the number of cities classified as reserve and central reserve cities under existing law in which national banking associations are subject to the reserve requirements set forth in section twenty of this Act; or to reclassify existing reserve and central reserve cities or to terminate their designation as such.'

"Under Section 19 of the Federal Reserve Act, it is provided that member banks shall maintain with their Federal Reserve Banks reserves against their demand deposits of not less than 13 per cent if located in central

12/5/47

-14-

"reserve cities, not less than 10 per cent if located in reserve cities, and not less than 7 per cent if located elsewhere. By virtue of the statutory authority of the Board of Governors to increase such requirements, member banks in central reserve and reserve cities are presently required to maintain reserves of 20 per cent of demand deposits and member banks located elsewhere must carry reserves of 14 per cent. All classes of member banks are required to maintain reserves of not less than 6 per cent against time deposits.

"Differentials in reserve requirements as between central reserve city banks, reserve city banks, and banks located elsewhere, were contained in the National Bank Act long before the Federal Reserve System was established. When the Federal Reserve Act was enacted in 1913, it contained provisions, as had the National Bank Act, for different reserve requirements for member banks in central reserve cities, reserve cities, and other places; but the Board, as above indicated, was given authority to add to existing central reserve and reserve cities, reclassify such cities, or terminate their designation as such.

"In the years since the enactment of the Federal Reserve Act, changes which have taken place have indicated the advisability of terminating some cities as reserve cities or of adding other cities to the list. For example, the relative volume of interbank deposits held by banks in some reserve cities has substantially declined, while the relative volume of such deposits held by banks in other cities has shown a considerable growth. From time to time, the Board has made designations and terminations of reserve cities, sometimes on the initiative of the member banks located therein and sometimes on the Board's own initiative. The enclosed page 401 (with the change typed thereon) from the Board's publication, Banking and Monetary Statistics, shows a list of all changes in reserve city designations since the passage of the Federal Reserve Act. The Board's past determinations have been made on the basis of all the pertinent facts in the case of each city concerned, but the Board has given particular weight to the volume and relative importance of interbank deposits held by banks in the city.

"Notwithstanding the many changes in designation which have been made by the Board in individual cases,

12/5/47

-15-

"present reserve city classifications are unsatisfactory and the Board is impressed with the need of providing a logical and appropriate basis for the designation of such cities. After careful study of the problem, especially during the last few years, and after considering various possibilities in this connection, the Board proposed and published in the Federal Register the basis of classification described therein.

"The notice of the Board's proposal which was published in the Federal Register invited interested parties to submit written data, views and arguments with respect to the proposal; and representatives of member banks in those cities which would be affected under the proposal are being afforded an opportunity to express their views orally at the offices of the Board on December 10, 1947.

"It is important to observe that under the Board's proposal member banks in those cities whose designation as reserve cities would be terminated would not be subjected to any additional or greater reserve requirements; on the contrary their present reserve requirements would be reduced.

"The Board recognizes that statutory changes may be needed in order to provide a fully satisfactory basis for differentials, if any, in reserve requirements, and that perhaps the existing law should be amended to eliminate the distinction between central reserve, reserve, and other cities and to provide that any such differentials should be based on the character of the individual bank's business or deposits without regard to its location.

"The Board hopes that the above explanation of this matter will serve your purposes."

Approved unanimously.

Reference was then made to a memorandum prepared by Mr. Smead under date of December 5, 1947, calling attention to the statement with respect to changes in check collection procedures which, pursuant to the Board's letter of October 22, 1947, was to be discussed with the Presidents next week. The memorandum also submitted

12/5/47

-16-

a draft of letter to the Presidents relating to the suggestion contained in the letter that if a bank sends to its Federal Reserve Bank or branch a daily average of more than 300 items payable in another Federal Reserve Bank or branch territory, such items must be sorted and listed separately. The draft of letter stated that in view of the comments of the Federal Reserve Banks and of the indicated possibility that they could remedy the situation on a voluntary basis with the member banks concerned, by arranging either for direct sendings in all cases where the volume of such checks averages 300 or more per day or for the appropriate sorting and listing of the checks if deposited by a member bank in its own Federal Reserve Bank or branch, the Board had decided to postpone until June 1, 1948, further consideration of action on the proposed requirement. The letter also stated that in the meantime it would be appreciated if the Banks would advise the Board as and when definite arrangements were made with the member banks concerned for remedying the situation on a voluntary basis.

It was agreed unanimously that the statement regarding changes in check collection procedures would be discussed with the Presidents and that they would be advised that the Board contemplated advising the Federal Reserve Banks as proposed in the draft of letter referred to above.

At this point Messrs. Smead, Vest, and Nelson withdrew and

12/5/47

-17-

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 December 4, 1947, were approved unani-
mously.

Letter to Mr. Weigel, Assistant Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"The Board will interpose no objection to the change in membership of the employees of the Little Rock Branch from the Blue Cross Association of St. Louis to the Arkansas Health Plan, as proposed in your letter of November 26, 1947, if such change is approved by the directors of your Bank."

Approved unanimously.

Telegram to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Reurlet December 1, 1947, Board approves designation of Robert C. Johnson as special assistant examiner for Federal Reserve Bank of Minneapolis."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks reading as follows:

"On a number of occasions in the past, the Board has taken the position that, in an election of Class A or Class B directors of a Federal Reserve Bank where there are only two candidates, failure of a voting member bank to indicate both first and second choices renders its ballot invalid. This position was taken because of the provision of section 4 of the Federal

12/5/47

-18-

"Reserve Act requiring the officer casting a member bank's vote to indicate 'first, second and other choices' and because in the event of a tie vote, a bank would be enabled, by failing to indicate a second choice, to effect the election of its first choice candidate. The specimen ballot enclosed with the Board's letter of March 31, 1927 (F.R.L.S. #3110) provided that both first and second choices must be indicated and that failure to observe such instructions would invalidate the ballot; and it is understood that the instructions sent out by the Federal Reserve Banks in cases in which there are only two candidates usually contain a provision to this effect.

"Recently, this matter has again had the consideration of the Board's Counsel and it is believed that the requirements of the law can be substantially met without necessarily following the practice above described. In lieu thereof, in all future elections when there are only two candidates, each voting member bank may be required to indicate only one choice, but, in order to give recognition to the above-mentioned provision of the law, it is desirable that the voting instructions refer to the law and state in appropriate language that the member bank in making a choice for one candidate will be deemed for the purpose of the statute to have indicated the other candidate as its second choice. If this procedure is followed, it is suggested that in the preparation of circulars and forms where there are only two candidates a statement to this effect be included either on the ballot itself or elsewhere. This procedure contemplates that the ballot will not provide a space for the indication of a second choice and that no ballot will be invalidated because it indicates or fails to indicate a second choice in such elections."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks except Atlanta reading as follows:

"The Board has been advised in a letter from the

12/5/47

-19-

"President of the Federal Reserve Bank of Atlanta that two of the Bank's assistant examiners have been classified by the Regional Director of the Wage and Hour Division of the Department of Labor as nonexempt under the Fair Labor Standards Act. President McLarin states that this situation causes burdensome and unnecessary administrative difficulties within the Bank, and sets forth reasons why assistant examiners should be exempt under the law. He has asked the Board to take the matter up with the National Administrator of the Wage and Hour Division with a view to obtaining a ruling that assistant examiners are exempt.

"In considering this matter the Board would like to be advised what the situation is in this respect at your Bank, whether you feel that the matter should be taken up with the Administrator on behalf of all Federal Reserve Banks, and if it is not to be taken up as a System matter whether you would want to have it taken up on behalf of your Bank as well as on behalf of the other Banks which so request. If you desire either of such courses of action it will be appreciated if you will furnish the Board with a complete description of the duties and functions of your assistant examiners and the extent to which each of them exercises discretion and independent judgment; whether all of your assistant examiners perform essentially the same functions; the salary paid to each assistant examiner; a statement as to the extent of the administrative difficulties involved because of the classification of some or all of your assistant examiners as nonexempt; and such other information as you may feel would be useful in connection with this matter.

"It will be appreciated if you will advise the Board concerning this matter as soon as practicable."

Approved unanimously.

Letter to The First National Bank of Tampa, Tampa, Florida,
reading as follows:

"This refers to Mr. Taliaferro's letter of October 31, 1947, addressed to the Federal Reserve Bank

12/5/47

-20-

"of Atlanta, with respect to a determination by the Board that The First National Bank of Tampa and the Union Security & Investment Company, both of Tampa, Florida, are not engaged as a business in holding the stock of or managing or controlling banks.

"The Board understands that The First National Bank of Tampa controls the Union Security & Investment Company which, in turn, owns over 85 per cent of the shares of stock of The Broadway National Bank of Tampa, but neither The First National Bank of Tampa nor the Union Security & Investment Company owns or controls any stock of, or manages or controls, any other banking institution, except stock held by The First National Bank of Tampa in fiduciary capacities in the normal course of its trust business.

"In view of these facts, the Board has determined that The First National Bank of Tampa and the Union Security & Investment Company are not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended; and, accordingly, The First National Bank of Tampa and the Union Security & Investment Company are not holding company affiliates for any purposes other than those of section 23A of the Federal Reserve Act.

"If, however, The First National Bank of Tampa or the Union Security & Investment Company should at any time own or control a substantial portion of the stock of, or manage or control, more than one banking institution, this matter should again be submitted to the Board for its determination. The Board reserves the right to make a further determination at any time on the basis of the then existing facts."

Approved unanimously.

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

"This refers to your letter of November 14, 1947, relating to the amount which the Reserve Banks should

12/5/47

-21-

"loan against Treasury bills and requesting any views that the Board may wish to express in connection with the matter.

"The Board sees no reason to differ with the conclusion which you have reached, that is, that inasmuch as Treasury bills are sold at a discount the Federal Reserve Banks should establish a loan value approximating the price at which they are sold.

"The first of the two questions mentioned in your letter relates to the applicability of the provisions of section 3(e) of Regulation A which require that, in any case in which the amount of an advance made by a Federal Reserve Bank on a member bank's note secured by obligations of the United States is less than the 'face amount' of such obligations, the Reserve Bank shall include an explanation of the facts and circumstances of the case in its loan schedule submitted to the Board.

"The language of the regulation is broad and does not distinguish between interest-bearing obligations and those which are sold at a discount. However, it is believed that the underlying principles apply only to loans of less than 'face amount' as that term is used in the case of interest-bearing obligations, i.e., the principal of the obligations. It would not appear, therefore, to conflict with these principles to construe the regulation as not requiring any explanation of loans against Treasury bills in amounts approximating the price at which the bills are sold by the Treasury since the difference between the sale price and the amount payable on maturity represents interest. The Board believes that an explanation in these circumstances is unnecessary.

"The second question relates to the value at which Treasury bills should be accepted as collateral for Federal Reserve notes pursuant to the second paragraph of section 16 of the Federal Reserve Act. It appears, however, that this question is academic at this time since the Reserve Banks furnish excess collateral in such amounts as to make it immaterial whether the Treasury bills are accepted at the amount payable on maturity or at cost. Also, it is believed that this question is not necessarily involved in the determination of the

12/5/47

-22-

"amount which the Reserve Banks should loan against Treasury bills.

"It is understood that you have placed this subject on the agenda for discussion at the next meeting of the Presidents' Conference. If any of the Presidents have views different from those stated above, it will be appreciated if you will advise the Board accordingly."

Approved unanimously.

Letter to the Honorable Preston Delano, Comptroller of the Currency, reading as follows:

"For some time the Board of Governors has had under consideration the advisability of requesting legislation, along the lines of the enclosed draft, to amend the capital requirements for the admission of State banks to membership in the System and for the establishment of branches by member banks.

"The Board is interested in legislation of this nature because the existing requirements result in unwarranted discrimination. The requirements for admission of State banks to membership are arbitrary and unrealistic and prevent sound banks, which are otherwise entitled to membership and whose deposits are insured, from becoming member banks. The requirements for the establishment of out-of-town branches by State member and national banks commonly exceed the capital needs of the banks and are much more stringent than the requirements under many State laws for the establishment of out-of-town branches by State banks. This results in unfair discrimination against State member and national banks and leads to the withdrawal of State banks from membership and the conversion of national banks into State nonmember banks.. It also effectively closes the door to membership for many State banks which are otherwise eligible.

"With respect to the admission of State banks to membership, the Board has in mind legislation which would insert, in lieu of the existing capital requirements, a provision requiring that an applying bank

12/5/47

-23-

"have capital and surplus funds which, in the judgment of the Board, are adequate, provided that the minimum capital stock shall be \$50,000. Since the requirements for the admission of State banks are now based largely upon those for the organization of national banks, this raises a question as to whether a similar change in the latter requirements is desirable.

"With respect to branches, the legislation under consideration is designed to permit a State member bank or a national bank to establish, with the approval of the appropriate Federal authority, any branch which it could establish as a State nonmember bank. The adequacy of the bank's capital structure would be one of the factors required to be considered in acting upon an application to establish a branch.

"The Board would be pleased to have your views concerning this subject and any suggestions with respect to the enclosed draft bill."

Approved unanimously.

Letter to Mr. D. J. Needham, General Counsel, The American Bankers Association, 719 15th Street, N. W., Washington 5, D. C., reading as follows:

"This refers to your letter of October 29, 1947, addressed to Chairman Eccles, in which you requested comments and suggestions concerning a proposed bill to permit national banks to convert into or consolidate with State banks.

"The proposed bill has been reviewed and there is enclosed herewith a memorandum prepared by the Board's counsel which contains certain suggestions principally of a technical nature.

"In view of the fact that the purpose is to equalize the positions of the State and national banking systems in connection with consolidations and conversions, the Board is prepared to endorse legislation of this nature, if the Comptroller of the Currency has no objection to the legislation. This is upon condition, however, that those interested in such legislation will agree to lend their

12/5/47

-24-

"support to the correction of another inequity in the law which the Board believes is of at least equal importance.

"Under existing law, a national bank or a State bank which is a member of the Federal Reserve System and desires to establish out-of-town branches must have a capital stock of at least \$500,000 (unless located in a State with a population of less than 1,000,000, when somewhat lesser capital is permissible); and moreover such a bank must have a capital not less than the aggregate capital required for the establishment of national banks in the various places where the bank and its branches are located. These requirements commonly exceed the capital needs of the banks and are much more stringent than the requirements under many State laws for the establishment of out-of-town branches by State banks. This results in unfair discrimination against national banks and State member banks and operates to the disadvantage of the national banking system and the Federal Reserve System.

"The Board feels that this inequitable situation should be eliminated by appropriate Federal legislation and hopes that the American Bankers Association and others interested in the proposed conversion and consolidation statute will agree to support legislation for this purpose."

Approved unanimously.

Letter to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, reading as follows:

"Reference is made to the recent exchange of telegrams regarding the absorption by your Bank during 1947 of more than 50 per cent of its cafeteria expenses.

"In your wire of November 17 you state that, to comply with the Board's request that steps be taken to bring cafeteria expenses absorbed for the year 1947 within the 50 per cent authorization, it would be necessary during the remainder of the calendar year either to increase prices charged employees

12/5/47

-25-

"for meals by 35 to 40 per cent, or to reduce very drastically the portions served, neither of which in your judgment would be desirable for reasons given in your wire.

"Based on the information furnished, the Board is satisfied that it will not now be practicable to bring the amount absorbed during 1947 within the authorized limits and, accordingly, withdraws the request to this effect contained in its telegram of November 7. In this connection, however, it wishes to point out that, at the joint meeting of the Board of Governors and the Presidents of the Federal Reserve Banks held on June 6, 1947, Chairman Eccles reviewed the present authorization for the Banks to absorb up to 50 per cent of the cost of operating cafeterias and stated that it was the Board's view that the Banks should adjust their practice so that by the beginning of 1948 they would not be absorbing more than 25 per cent of cafeteria expenses. It was apparent that some of the Federal Reserve Banks felt that this was too drastic and rapid a reduction in the proportion of cafeteria expenses absorbed, and after considerable discussion at the joint meeting with the Presidents on October 7, 1947, the matter was referred to the Presidents' Conference Subcommittee on Personnel Classification and Job Evaluation for study and report. To date the Board has not received a copy of the Subcommittee's report.

"You describe in your telegram of November 14 the plan under which your Bank now furnishes meals to its employees and state that the whole question of dining room operation was reviewed at a meeting of the officers early in September, that a plan to change to a full cafeteria basis was presented to your Executive Committee and approved, and that following this action the plan was made known to the Board in a telephone conversation between Mr. Smead and Vice President Austin. However, we understood from Mr. Austin that your Bank also had under consideration the advisability of making a substantial increase during the last quarter of the year in prices charged for food in order to bring the proportion of expenses absorbed within the 50 per cent limit.

"In the circumstances the Board requests that steps be taken to reduce, as of January 1, 1948, the

12/5/47

-26-

"portion of the cafeteria expenses absorbed by the Bank well below the 50 per cent limit so that there can be no likelihood in the future of the Bank's absorbing more than half of the cost of operating its cafeteria. In making these changes it is suggested that your Bank keep in mind the possible reduction that may be made in the portion of the expense that may be absorbed following the receipt of the report of the Subcommittee of Personnel Officers of the Federal Reserve Banks and action thereon by the Presidents and the Board. In the meantime, it is requested that you advise the Board not later than December 20 what plan you propose to put into effect in response to this request."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks reading as follows:

"Referring to the Board's letter of November 19, 1946 (S-942, F.R.L.S. #3053), in submitting preliminary plans and estimates of cost for the construction of a Federal Reserve Branch building or a major alteration or addition thereto, it will be appreciated if the information furnished includes the following data:

1. Detailed list of costs, showing estimates for such items as excavation, concrete work, vaults, stone or masonry work, structural steel, electric wiring and fixtures, etc. The estimates should be segregated so as to show in a separate column the cost of the building proper, exclusive of vaults, permanent equipment, furnishings, and fixtures (based on the Trowbridge formula--see Board's letter of January 15, 1947).
2. Material to be used for outside wall facing and cost of alternate materials; e.g., limestone, terracotta or marble.
3. Cubic content of building or addition to building, measuring from exterior of walls and from bottom of basement slab to top of roof slab.
4. Gross floor space in building or addition, using outside measurements with no deduction for stairways, elevator shafts, garages, mechanical equipment, etc.

12/5/47

-27-

"5. Usable floor space in building or addition (using formula on pages 16 and 17 of Instructions Governing the Preparation of Functional Expense Reports).

6. Ratio of total usable floor space in new or enlarged building to (a) present requirements and (b) requirements at time of highest wartime employment.

7. If proposed space would be in excess of present requirements, would building be arranged so that space could be rented readily and would it be the expectation that such excess space would be rented until needed?

8. Cubic content of vaults, inside measurements; type and thickness of vault walls and doors. Question has arisen as to whether there is any necessity for the construction of vault walls and doors of the thickness that has been provided in some instances in the past, and the Board is studying this problem.

9. Square foot cost of gross floor space of recently constructed bank or office buildings, if any, in the city. Such cost to include architects' and engineers' fees and all fixed machinery and equipment but not movable equipment.

"In the past some of the Federal Reserve branch buildings have provided for special ornamentation or decoration on the outside or inside of the building and have provided high ceilings in public lobbies or banking rooms. The Board will appreciate full information on these points when preliminary plans for new construction are submitted to it."

Approved unanimously.

Telegram to Mr. Knoke, Vice President of the Federal Reserve Bank of New York, reading as follows:

"Your telegram December 4. Board approves three months extension by your Bank to Bank Polski of \$2,000,000 loan maturing December 9, such loan to be secured by gold earmarked in your vaults. It is understood that the loan is to be made on the same terms and conditions as applied to the maturing loan and as outlined in your telegram of September 4 as follows:

12/5/47

"(A) Such loan to be made up to 98 per cent of the value of the gold held in your vaults as collateral;

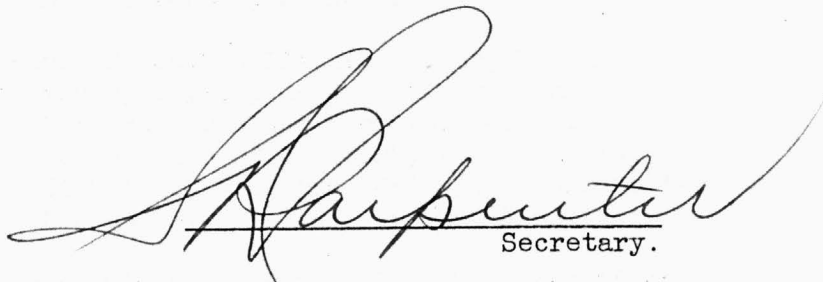
(B) Such loan to run for three months;

(C) Any further extension of such loan to be subject to agreement between Bank Polski and yourselves with no commitment by you for renewal;

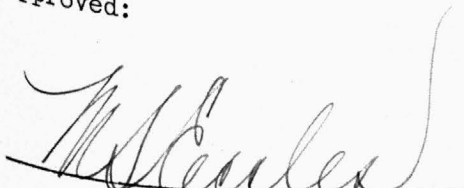
(D) Such loan to bear interest for its duration at the discount rate of your Bank in effect on the day on which such loan is made.

It is understood that the usual participation will be offered to the other Federal Reserve Banks."

Approved unanimously.


Secretary.

Approved:


Chairman.