

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, March 12, 1948.

PRESENT: Mr. Szymczak, Chairman pro tem.
Mr. Draper
Mr. Evans
Mr. Clayton

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 11, 1948, were approved unanimously.

Mr. Szymczak was elected Chairman pro tempore to serve while Chairman Eccles was absent on vacation during the next two weeks.

Telegrams to the Federal Reserve Banks of Boston, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on March 9, by the Federal Reserve Banks of Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas on March 11, 1948, and by the Federal Reserve Bank of Boston today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Telegram to the Federal Reserve Bank of Cleveland reading as follows:

"Retel March 11, Board approves effective March 15, 1948, rate of 1-1/4 per cent in connection with

3/12/48

-2-

"purchases of Government securities under resale agreement as authorized by Federal Open Market Committee. Otherwise Board 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 March 11, 1948."

Approved unanimously.

Memorandum dated March 10, 1948, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the appointment of Alton W. Cassidy, a laborer in that Division, be extended on a temporary indefinite basis with no change in his present basic salary of \$1,690 per annum, effective March 19, 1948. The memorandum also stated that it was contemplated that Mr. Cassidy would become a member of the Federal Reserve retirement system.

Approved unanimously.

Memorandum dated March 10, 1948, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the appointment of Arthur P. Herdman, a general mechanic in that Division, be extended on a temporary basis for a period of six months, with no change in his present basic salary of \$2,469.24 per annum, effective March 22, 1948. The memorandum also stated that Mr. Herdman was a member of the Civil Service retirement system.

Approved unanimously.

3/12/48

-3-

Letter to the board of directors of the "Union State Bank", Carrizo Springs, Texas, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approved the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Dallas. The letter also contained the following special comment:

"It appears that the bank is authorized to exercise fiduciary powers but does not expect to exercise such powers and that it possesses certain other powers which are not necessarily required in the conduct of a banking business, such as the power to issue and sell investment certificates. Attention is invited to the fact that if the bank should desire to exercise fiduciary powers or any unusual powers, it will be necessary under condition of membership numbered 1 to obtain the permission of the Board of Governors before exercising them."

Approved unanimously, for transmission through the Federal Reserve Bank of Dallas.

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

"At its recent meeting, the Conference of Presidents of the Federal Reserve Banks recommended to the Board of Governors the adoption of amendments to the Board's Regulation J for the purpose of authorizing a procedure for the conditional payment of checks and the return of unpaid items on the next succeeding business day after their receipt by drawee banks.

"The Board understands that the subject of conditional payment of checks and delayed return of unpaid

3/12/48

-4-

"items has been under consideration by the Presidents' Conference and Committees of the Conference at various times over several years past. Consideration of this subject was prompted by the enactment of statutes in a number of States and by the practices followed by many clearing houses which permit the return of unpaid items on the day following presentment. In November 1947, the members of the Committee on Collections and a Special Committee of Counsel discussed the matter with a subcommittee of the Bank Management Commission of the American Bankers Association; and, in a letter dated January 5, 1948, the Chairman of that subcommittee advised Mr. Leach, Chairman of the Committee on Operations, that the American Bankers Association recommends to the Federal Reserve System that the Board's Regulation J and the circulars of the Federal Reserve Banks be amended to authorize such a procedure for the conditional payment of checks and delayed return of unpaid items.

"In a joint report, dated January 30, 1948, the Committee on Collections and the Special Committee of Counsel, the membership of which Committees includes representatives of eight Federal Reserve Banks, recommended that the Board of Governors adopt two amendments to section 5 of Regulation J in the form set forth in Amendments No. 1 and No. 2 attached hereto, such amendments to be made effective at such time as the Board may determine, but not until the American Bankers Association (a) has distributed to its members a form or forms of suggested contracts which are adequate and satisfactory to authorize depository and collecting banks to send checks to Federal Reserve Banks for collection in accordance with Regulation J and the operating circulars and letters of the Federal Reserve Banks, and (b) has drafted a model statute which is adequate and satisfactory to give drawee banks the right to make conditional payment of checks presented by Federal Reserve Banks subject to the right to return, and reclaim payment for, unpaid items on the next succeeding business day after their receipt by the drawee banks. It is understood that representatives of the American Bankers Association have been studying the matter of drafting a form of such a suggested contract to be distributed to banks and of such a model statute authorizing conditional payment of checks.

3/12/48

-5-

"The recommendations contained in this joint report were adopted by the Conference of Presidents at its meeting in February.

"The joint report contemplates that, if Regulation J is amended in the manner suggested, the cash collection circulars of the Federal Reserve Banks will be amended to incorporate therein the revised text of section 5 of the Regulation and to eliminate any provisions which may be inconsistent with the amendments to the Regulation, and also that the Federal Reserve Banks will incorporate in their cash letter forms or agreements with drawee banks a reference to the new provision of the Regulation regarding conditional payment of checks.

"The Presidents' Conference at its meeting in February also approved a recommendation contained in a supplemental joint report of the Committee on Collections and the Special Committee of Counsel that section 6 of Regulation J be revised to make it clear that certain substantive provisions contained in the Federal Reserve cash collection circulars are within the authority to promulgate rules which is granted to the Federal Reserve Banks by that section; and in this connection it was pointed out that since the cash collection circulars deal with other cash items as well as checks, it would be well to clarify the authority of the Federal Reserve Banks to treat all cash items on an equal basis in such circulars. Amendment No. 3 in the attached proposed amendments to Regulation J is intended to carry out this recommendation.

"The Board of Governors, in accordance with the recommendations contained in the above-mentioned joint reports and the action taken by the Presidents' Conference, is prepared to adopt amendments to Regulation J in the form herewith enclosed. However, before the Board publishes in the Federal Register notice of its proposal to adopt such amendments, it will be appreciated if you will advise the Board as soon as possible, and in any event within the next two weeks, of any comments or suggestions which you may care to offer in this connection.

"It is contemplated that when the amendments to Regulation J are finally adopted by the Board, they will not be made effective immediately but only after the American Bankers Association has taken the action indicated in the recommendation made by the Committee on Collections and the Special Committee of Counsel and by the Presidents' Conference."

Approved unanimously.

3/12/48

-6-

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

"Reference is made to your letter of March 4, 1948, in which you ask the Board's approval for the construction of a vault at the Detroit Branch for the storage of coin. It is noted that the vault is considered to be necessary to carry on a coin wrapping service for the banks in the territory serviced by the Detroit Branch.

"The Board will interpose no objection to construction of the vault as outlined in your letter at a cost of approximately \$23,838."

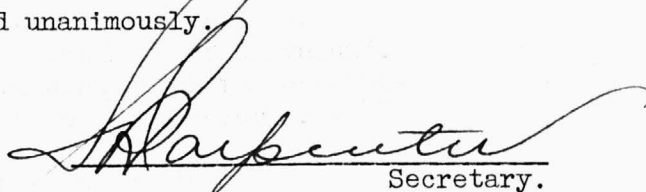
Approved unanimously.

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

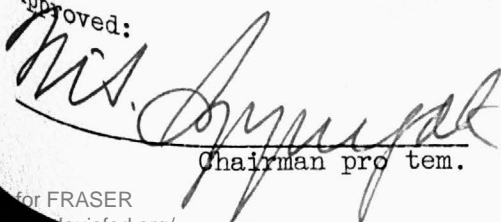
"Reference is made to the discussion at the recent Presidents' Conference of the topic 'Loans to Employees', which was placed on the agenda at the request of the Board.

"After considering the views of the Federal Reserve Banks with respect to the use of Bank funds for making loans to employees and the worthwhile purposes such employee loan plans serve, the Board has decided to interpose no objection to their continuance. The Board is of the opinion, however, that loans to employees by the Federal Reserve Banks should be kept within reasonably low limits. The limit for such loans at any Bank, including branches, should not be increased from the existing authorized limit to an amount in excess of \$15,000 without first submitting the matter to the Board for its consideration."

Approved unanimously.


Secretary.

Approved:


Chairman pro tem.