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 Tuesday, October 5, 1948, at 10:40 a.m.

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

Mr. Carpenter, Secretary

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

Mr. Willett, First Vice President of the Federal Reserve Bank of Boston

Mr. Charles G. Young, Secretary of the Presidents' Conference.

Before this meeting a memorandum covering questions to be discussed by the Board of Governors and the Presidents had been submitted by the Presidents' Conference to the Board. The statement of the Presidents, the response of the Board of Governors, and the discussion at this meeting with respect to each of the matters considered were as follows:

1. Policies of Federal Reserve Banks and branches with respect to granting deferred credit for country items drawn on par remitting banks in States which are "split" between their territory and the territory of another Federal Reserve Bank or branch. In accordance
with the Board's suggestion in its letter of June 2, 1948, to the Chairman of the Committee on Operations, the problem presented by an apparent difference in policies of the various Federal Reserve Banks with respect to granting deferred credit for country items drawn on par remitting banks located in States included in more than one Federal Reserve district was referred to the Committee on Collections for study and recommendations. The views and recommendations of that Committee with respect to this problem, as well as with respect to the Board's proposed requirement for direct routing of cash items, are set forth on pages 3-8 of its report to the Committee on Operations, dated August 30, 1948, copies of which have been furnished to the Board's staff. It is the view of the Committee that the only situation of possible concern arises from the policy of the Chicago Reserve Bank in granting two days' deferred credit for the entire States of Illinois and Indiana, and the Committee recommends that, in view of the long standing practice of the Chicago Bank to require sorts by States, it should not be asked to change its policy. The Committee further recommends that the Board's proposed requirement that member banks with 300 or more items payable in the territory of another Federal Reserve Bank or branch either route such items direct or sort and list them separately should not be effectuated. In accordance with the recommendation of the Committee on Operations, the Conference approved and adopted the portion of the report relating to these subjects.

Mr. Davis, as Chairman of the Presidents' Conference, and Mr. C. S. Young made amplifying statements with respect to the first recommendation referred to in the above statement, and it was indicated that the Board of Governors had no objection to the adoption of that recommendation.

With respect to the second recommendation that the requirement be not effectuated as proposed by the Board of Governors that member banks with a daily average of 300 or more items payable in another Federal Reserve Bank or branch territory either route such
items direct or sort and list them separately, Mr. Davis referred
to the statement contained in the report of the Committee on Col-
lections dated August 31, 1948, that lists sent to the Board by
the Federal Reserve Banks in response to its letter of June 9, 1948,
showing the names of member banks which deposited with their Federal
Reserve Bank or branch a daily average of more than 300 items pay-
able in the territory of another Federal Reserve Bank or branch,
indicated that the situation had been remedied except to a negligi-
ble extent, that there were only a very few exceptional cases in
which member banks were depositing such items with their own Federal
Reserve Bank, that these cases were receiving attention of the Pres-
idents concerned, and that there appeared to be no reason to pursue
the matter further for the present at least. The full recommendation
of the Committee on Collections was that the requirement proposed by
the Board be not effectuated, but that the Federal Reserve Banks con-
tinue their efforts to encourage direct routings and that the Board
obtain from the Federal Reserve Banks periodic reports, at least
once a year, as to the member banks which were depositing a daily
average of more than 300 items payable in the territory of another
Federal Reserve Bank or branch, such reports to include an analysis
showing the number of such items that are drawn on banks in Federal
Reserve Bank or branch cities and the number of such country items
that are payable in split States.
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Mr. Leach commented that this problem had been practically solved and, in his opinion, there was no need for establishing a rigid requirement with respect to it at the present time.

Chairman McCabe stated that the Board had not had sufficient time to study the proposal of the Presidents and would like to have an opportunity to consider it further before expressing an opinion.

2. Policies of Federal Reserve Banks and branches with respect to the method of determining deferred availability for cash items payable in other Federal Reserve Bank and branch cities. The matter of apparent differences in method of determining deferred availability employed at the various Federal Reserve Banks was referred to the Committee on Collections in accordance with the suggestion made by the Board in its letter of June 2, 1948, to the Chairman of the Committee on Operations. On pages 8 and 9 of its report to the Committee on Operations, dated August 31, 1948, copies of which have been furnished to the Board's staff, the Committee on Collections advises that the practices in question are uniform at all Federal Reserve Banks, although differences in arrangement and organization of their published time schedules may tend to give the appearance of a difference in method of determining deferred availability, and recommends that the time schedules be clarified by inclusion of a definitive footnote in certain instances. As recommended by the Committee on Operations, the report on this subject was approved and adopted by the Conference.

Chairman McCabe stated that the Board had no objection to offer to this proposal.

Chairman McCabe also said that he was not as familiar as he would like to be with the services rendered by the Federal Reserve Banks to their member banks, and would appreciate comments from the Presidents as to the reasons for the statement, made from time to time by officers of the smaller banks who visit the Board's offices,
that they get much better service and more prompt credit for cash items from their correspondent banks than they are able to obtain from their Federal Reserve Bank. Various of the Presidents discussed the efforts that had been made over the years, and were continuing to be made, to improve the efficiency of the check collection procedures of the Federal Reserve Banks and to reduce the time required to collect checks, and Mr. Davis stated that the Federal Reserve Banks have not gone as far as the correspondent banks who give immediate credit for all items accepted by them without sort regardless of the time required to collect the items. He added that in order to obtain the service provided by a correspondent, the country bank is required to maintain a balance with the correspondent bank which more than covers the cost of the service rendered.

Mr. Leach pointed out that correspondent banks can accept cash items on both par and nonpar banks which Federal Reserve Banks cannot do, and that there had been discussion from time to time in the past whether the Federal Reserve Banks should give immediate credit on cash items but had felt that it should not be done for reasons which he outlined. Mr. Leach also expressed the opinion that there was a limit to the competitive disadvantages that could be imposed on member banks in relation to nonmember banks, and that one of these disadvantages was increased reserve requirements. He
made the further comment that while the Federal Reserve Banks had greatly simplified their check collection procedures, member banks had a habit of talking about 'red tape' when they referred to the Federal Reserve Banks and that some of them would continue to do so regardless of how simple the collection procedures might be made.

Mr. Eccles referred to the consideration that had been given in the past to the competitive situation of member banks and nonmember banks and what might be done to make membership more attractive. One of the things that might be done, he said, was to reduce or eliminate deferred credit on cash items but that because of the large addition to member banks reserves that would result from this action there was agreement that any such action could not be considered at the present time.

Mr. Williams commented that, on the basis of a study made by the Federal Reserve Bank of Philadelphia, it was evident that the broader services rendered by correspondent banks as compared with the services rendered by the Federal Reserve Banks was not an indication that the check collection or other facilities of the correspondent banks were as efficiently or more efficiently conducted than the corresponding operations of the Federal Reserve Banks.

Mr. Peyton observed that it was a tremendous advantage for country banks to be able to place all of their cash items in a single cash letter for which they would get credit on their books
the next morning, and stated that in his opinion no country bank would be willing to sort its items and send them to a Federal Reserve Bank for deferred credit unless it had some very special reason for doing so.

Chairman McCabe inquired whether, if the situation should justify such action from the standpoint of credit control policy, the Presidents would favor the giving of immediate credit for cash items, and some of the Presidents indicated that they would.

Mr. Davis stated that since such action would not be in harmony with present credit policies, the question was an academic one at the moment. He and Mr. Young emphasized the point that the services provided by the correspondent banks were more than compensated for by the maintenance of balances with the correspondents, and that an analysis of such accounts in many cases would show that the cost of services of the correspondent banks is more than the cost of utilizing the services of the Federal Reserve System.

Mr. Eccles outlined how the higher reserve requirements imposed on member banks result in immobilizing a larger portion of a member bank's funds than is the case with a nonmember bank, and stated that this was a very important factor in the determination whether a bank should or should not be a member of the System. As the value of short-term funds increased, he said, the cost to a member bank of remaining in the Federal Reserve System would increase
and it was his view that the System would do well to retain the number of members that it now has.

In response to a comment by Chairman McCabe that the Presidents should continue to study how they could render better service to their member banks, Mr. Sproul expressed the view that the System should not engage in a "competition of laxity" with correspondent banks. He referred to the fact that some State authorities had increased reserve requirements in their respective States to the level fixed by the Board, that some small country banks, in order to meet increased reserve requirements, had reduced their balances with correspondent banks to a point below the amount required to pay for the services rendered by the correspondent banks, and that as a result the Federal Reserve Bank of New York was receiving from its country member banks for clearance an increased volume of checks.

Mr. Gidney commented that, notwithstanding the competitive disadvantages which some member banks might feel they have, they had done about as well from an earning standpoint as nonmember banks, and that the relative number of member banks had increased notwithstanding these alleged disadvantages.

Mr. Eccles responded that that situation might have been the result of the low reserve requirements in earlier years and to the desire of member banks to have access to the discount facilities of the Federal Reserve Banks, but that it was questionable whether the
Federal Reserve System would continue to hold its member banks in
the face of the present large reserve requirements and the fact
that they have free access to reserve funds through the sale of
Government securities in the market. In the light of this situa-
tion he felt that at the appropriate time the System would have to
give consideration to the possibility of giving immediate credit
on cash items.

In a further discussion, the Presidents indicated that they
were thoroughly aware of the problems involved in the services which
they were rendering to member banks and were continuing to study the
matter.

3. Treasury bills sold by member bank to member bank of another
Federal Reserve district under repurchase agreement as proper
items for safekeeping by Federal Reserve Bank of district in
which selling member bank is located. The Conference gave con-
sideration to the practice contemplated by the request recently
made of the Federal Reserve Bank of Cleveland by one of its mem-
ber banks to hold in safekeeping for a member bank located in
New York, from time to time, blocks of Treasury bills sold to
the New York member bank by the member bank in Cleveland, sub-
ject to a repurchase agreement or under an understanding to
that effect. The reason for the request, as explained to the
Conference, is that the Cleveland member bank desires to be in
a position to make quick adjustments in its reserve position as
late as possible in the day and feels that such sales by way of
CPD transactions will not serve the desired purpose because CPD
transactions must be consummated not later than 1:30 p.m. ordi-
narily and cannot be made at all on the last day of the month.
The Presidents see no objection to permitting the requested
practice under the circumstances.

Chairman McCabe stated that the Board was willing to concur
in the decision of the Presidents' Conference.
4. Study of retirement benefits. The Conference received the report of the Committee on Personnel relating to the study of System retirement benefits now being undertaken under the direction of a special Committee of the Chairmen's Conference. In this connection the memorandum of September 30 by Mr. Sherman of the Board's staff was read, reporting the broad objectives, and the procedure agreed upon at the meeting of the Chairmen's Committee on September 28, which representatives of the Board and Board's staff, the Retirement System Trustees, the Retirement Committee, and the Presidents' Conference had attended by invitation. Each President was asked to submit to the Committee on Personnel any suggestions for the study not included in the specific suggestions listed in Mr. Sherman's memorandum. The procedure for making the study was outlined, whereby the Subcommitte on Personnel will examine and report on the broad questions of personnel policy involved, and the Retirement Committee assisted by the Actuary will supply cost estimates and other technical information as required. It is the intention to make interim reports to the Chairman of the Chairmen's Committee, and if possible to have a tentative report ready for the Chairmen to consider at their next Conference.

Chairman McCabe stated that this matter did not call for any action by the Board at this time.

Mr. Davis said that the Presidents' Conference Committee on Personnel would meet on the above subject this afternoon and that tomorrow a meeting of the Retirement Committee of the Retirement System would be held at which Mr. Rounds would present to the latter Committee such assignments from the Personnel Committee as might be developed at the meeting of that Committee this afternoon.

5. Retirement System investment policy. Since this subject was raised by the Board, it has been given serious study by the Presidents, by other Trustees of the Retirement System, and by the special Committee appointed to study it by the Chairman of the Board of Trustees. The Chairman of the special
Committee attended a meeting on Friday at which this topic was discussed, and reported on some of the questions involved. It was agreed that, since he could not be present for the joint meeting with the Board today, and since his successor has not yet been named, the substance of his report would be presented by Mr. Leedy, the Chairman of the Board of Trustees of the Retirement System. The fundamental question which the Presidents feel must be answered before the Board's suggestions are considered on their merits, is whether any action taken by the Board of Governors can relieve the Trustees of any part of their full legal responsibility under the declaration of trust of March 1, 1934, in accordance with which the funds of the Retirement System are administered. If it should be determined that the full responsibility must be borne by the Trustees notwithstanding any action taken by the Board of Governors, then certain other aspects of the question will not need to be considered, and consideration can then be given to the Board's views on certain aspects of the Retirement System's investment policy, in which the Board unquestionably has an interest. Before Mr. Leedy presents his informal report, it should be mentioned that Mr. Draper, the Board's member of the Retirement System's Board of Trustees, on Tuesday reported this subject to the special Committee of the Chairmen's Conference as one to which that Committee might well give attention in its current study.

Mr. Leedy stated that Mr. Whittemore had presented at the separate meeting of the Presidents' Conference an opinion received from Counsel for the Federal Reserve Bank of Boston raising the legal question referred to in the above statement which seemed to the Presidents' Conference to require solution before the subject could be further examined. He said that the opinion pointed out that the Retirement System existed under a declaration of trust which was governed by the laws of Massachusetts, and that under the laws of that State there were certain duties prescribed for trustees, one of which provided that in making investments provision must be made
for diversification. He added that the question was also raised in the opinion whether the trustees under Massachusetts law could surrender any part of their discretion as trustees without violating the responsibilities imposed upon them, and that with these responsibilities, regardless of the inducement that might be made to surrender those responsibilities, it would seem that the trustees would not be free to agree upon a program of limiting the System's investments. Mr. Leedy went on to say that some of the other Federal Reserve Banks had opinions from their Counsel to the effect that the Banks were already underwriting the benefits of the Retirement System; that the System could be dissolved or a Bank could retire; but that, as long as the System continued, the benefits were in effect guaranteed by the Banks so that it would appear to be questionable whether the trustees would receive any consideration for curtailing the exercise of their broad discretion as to the type of investments in which the funds of the System should be placed. It was the view of the Presidents, Mr. Leedy added, that these questions should be determined by an opinion from the Board's Counsel as well as by Counsel for the Federal Reserve Banks or counsel appointed to represent the Retirement System for this purpose.

Mr. Draper suggested that the legal opinion referred to by Mr. Leedy be given to the Board's Counsel for consideration.
It was Chairman McCabe's view that if there could be an agreement as to the course that should be followed with respect to the management and investment of the System's funds any legal problems could be easily resolved. He also felt that it would be helpful to get the views of the special committee of the Chairmen's Conference which had been appointed to make suggestions with respect to changes in the Retirement System.

At the conclusion of the discussion, there was agreement that the legal opinion presented by Mr. Whittemore should be turned over to Mr. Vest, General Counsel for the Board, for comment.

6. Policy with respect to employees entering military service. The Chairman of the Committee on Personnel reviewed with the Presidents the Board's letter (S-1032) of August 16, 1948, and the attached Statement of Policy (S-1032-a) for uniform treatment of employees of the Federal Reserve Banks entering service in the Armed Forces of the United States under the Selective Service Act of 1948. The benefits and treatment approved by that letter and statement seem to the Presidents to meet the situation fully except in one respect. In its letter the Board approves the payment of up to two weeks or one-half month's unearned salary to employees when they enter active military duty under the Selective Service Act and the payment of an additional two weeks or one-half month's unearned salary if and when the employees return to service with the Bank. The Presidents would prefer that the Board simply approve the payment of up to one month's unearned salary to employees entering active military duty, at such time or times as the Reserve Bank concerned deems best, since it is believed that in some instances the employee may have a greater need for the money at the outset than at the conclusion of his military service. With respect to the Board's feeling that some consideration should be given to continuing the employee's death benefit provision under the Retirement System, the Presidents expressed the belief that, in view of the provision for reimbursement for insurance premiums on National Service Life Insurance, continuation of Retirement System death benefits during the period of military
service would be unnecessary and undesirable; but it was agreed that, as a matter of practice, an employee should be advised, at the time of leaving a Bank's service, that no death benefits will be payable under the Retirement System during the period of his separation from employment, since the reimbursement of premiums on National Service Life Insurance is intended to be in lieu of Retirement System death benefits.

Chairman McCabe stated that the Board approves the recommendation of the Presidents' Conference, and a letter would be sent to the Federal Reserve Banks putting the recommendation into effect.

7. **Officer status for senior economists of Reserve Banks.** The Presidents gave consideration to the question of giving senior economists at a Federal Reserve Bank the status of an officer. Although most of the Presidents expressed doubt as to the desirability of taking such action at their respective Banks, it was the consensus of the Conference that it should not object to any individual Federal Reserve Bank's taking such action.

Chairman McCabe stated that the Board would take this matter under consideration and advise the Presidents of its conclusions.

8. **Desirability of handling on a System-wide basis all matters pertaining to reimbursement of the Federal Reserve Banks for fiscal agency services performed.** The Chairman of the Committee on Fiscal Agency Operations reviewed with the Presidents the contents of the Board's letter of June 25, 1948, to the Chairman of the Conference of Presidents concerning a request received by a Federal Reserve Bank from the Treasury to absorb expenses for withheld tax operations, and the question of uniformity among Federal Reserve Banks raised thereby. The Presidents expressed concurrence with the general statement of policy made by the Board in that letter but would prefer that the following procedure, recommended by the Committee on Fiscal Agency Operations and approved by the Conference, which modifies only slightly the procedure set forth in the Board's letter, be followed:

"It is recommended that, in the event a Federal Reserve Bank is requested to absorb any fiscal agency expenses which have generally been regarded as reimbursable, the Reserve Bank so requested immediately communicate the
"facts to the Chairman of the Committee on Fiscal Agency Operations and to the Board of Governors. The Chairman will promptly submit the matter to the full committee, which will discuss it with the Treasury in an effort to reach a mutually satisfactory agreement. If it should become necessary for the Treasury to seek a deficiency appropriation from Congress in order to make full reimbursement, which the Treasury would be compelled to do if it had performed the services itself, it is the feeling of the Committee on Fiscal Agency Operations that the case should be considered on its merits and that, before a final decision is reached, the question should be reviewed jointly by the Board of Governors and the Conference of Presidents."

Chairman McCabe stated that the Board would be willing to concur in the procedure proposed by the Presidents' Conference, with the second sentence as set forth above amended to read as follows (underscored portion of sentence would be added by adoption of the Board's suggestion): "The Chairman will promptly submit the matter to the full Committee, which in conjunction with the Director of the Board's Division of Bank Operations will discuss it with the Treasury in an effort to reach a mutually satisfactory agreement."

All of the Presidents indicated that the change in procedure proposed by the Board was acceptable to them.

At this point Mr. Thurston, Assistant to the Board, joined the meeting.

9. Advisability of campaign to publicize the nature and purposes of bank reserves, with particular reference to reasons for subjecting nonmember banks to System reserve requirements. The Conference gave consideration to the advisability of a System-wide campaign to publicize the purposes of bank reserves and the potential multiple expansion of bank credit inherent in available reserves, with particular reference to the reasons for subjecting
nonmember banks to Federal Reserve System reserve requirements. During the ensuing discussion, the need for additional work in this field, particularly among bankers, was stressed, and it was pointed out that opportunities to conduct such a campaign are presented to the Board, the Federal Reserve Banks, and their respective staffs, through their publications, news releases and other public activities from time to time. The Presidents feel that, while this should be the subject of a System-wide effort with careful planning and direction, the effectiveness of such a program would be greatly enhanced if it were to come from sources outside of and unrelated to the System. It was noted, and the Presidents were agreed, that there is a distressing lack of up-to-date and comprehensive, yet simple, source material explaining and defining the role of the Federal Reserve System. The subject was referred to the Committee on Bank and Public Relations, but the Presidents indicated a desire to discuss the broader aspects of this problem with the Board at the joint meeting to be held following the conclusion of the meeting of the Presidents' Conference.

Chairman McCabe stated that the program proposed by the Presidents was agreeable to the Board.

Mr. Davis raised the question what might be done by the System to carry the program into effect. In that connection, he pointed out that the Committee for Economic Development had published monographs prepared by experts on particular subjects which had been given wide distribution and public attention. He thought that that experience was an illustration of one outside agency that might do a job in the credit field without being regarded as self-serving. Mr. Davis referred to the System booklet entitled "The Federal Reserve System--Its Purposes and Functions", and stated that the Presidents thought the recent revision had made the text of the booklet more technical and more difficult to understand.
There was a discussion of criticisms that had been made of the System's public relations, of what some of the Federal Reserve Banks had been doing to bring about better understanding of the System and its problems, and of the difficulties involved in undertaking to bring about an understanding by the public of the System's operations and particularly its functions relating to credit control.

On the latter point, Mr. Thurston stated that the problem of credit control was a matter which bankers and business men generally did not understand and that it was not apparent how the problem could be explained in simple enough terms to be understood by the public. He was of the opinion that something could be done by visual presentation but the task would be a difficult one. It was also his view that the revision of the System booklet was an improvement from the standpoint of classroom use but not for the use of the general public.

Mr. Davis stated that Mr. Evans had made the suggestion that it might be feasible to bring groups of college instructors together for review or refresher courses on the Federal Reserve System.

Mr. Evans stated that the suggestion had come to him from Mr. Peyton, and Mr. Peyton outlined the procedure followed by the Federal Reserve Bank of Minneapolis in bringing in small groups of younger bankers in the Minneapolis District for a week's course on the Federal Reserve System. He suggested that it might be feasible
for the Board to approach universities with the thought that groups of instructors in the colleges could be brought to Washington for a short course and then sent to the Federal Reserve Bank of their respective districts where they would be shown how the Federal Reserve Banks operate, after which they would be able to present accurate information on the Federal Reserve System in their college classes. To make such a program effective, he said, it would be necessary to have it a continuous one with all details worked out including registrations, hotel reservations, and the payment by the System of the expenses of those attending.

Mr. Evans stated that he had discussed this matter with Mr. Young, Associate Director of the Board's Division of Research and Statistics, that Mr. Young would be in the West on a trip in the near future and would discuss the matter with Mr. Peyton and Mr. Powell, First Vice President of the Federal Reserve Bank of Minneapolis, after which he would return to Washington and the matter could be discussed with a number of economists from various universities to see what could be worked out, with the thought that the matter could be discussed at the next meeting of the Presidents' Conference.

Mr. Eccles expressed the view that the subject of central banking was an extremely complex one and that the System would be making a mistake if it went beyond bankers, business men and students of economics in an effort to promote a popular understanding of the
Federal Reserve System and its functions. He did feel that the bankers, corporation treasurers, and other business men should be interested because it was their business to understand the credit mechanism but that it would not be possible to bring about a general understanding of the System on the part of the public.

Mr. Davis referred to the recent policy of the Board in inviting representatives of State Bankers Associations to the Board's offices for luncheon and a discussion of problems confronting the System and inquired as to the reaction from those groups. In response to a request from Mr. Davis for comments from the Presidents, Mr. Gidney stated that he happened to be in Washington when the representatives of the Ohio Bankers Association were here this year and that while the response to the luncheon was a very satisfactory one, the discussion in the Board Room following the luncheon had been criticized as being too technical.

After some further discussion, Chairman McCabe expressed the view that this whole matter should have careful study, that the System had a big selling job to do, and that it should develop ways by which that job could be done more effectively.

At the conclusion of the discussion, Mr. Davis stated that Mr. Peyton had succeeded Mr. Whittemore as Chairman of the Presidents Conference Committee on Bank and Public Relations, that this Committee would work with Messrs. Evans and Thurston on the matter, and
10/5/48

that he would suggest that it be put on the agenda for the next meet-
ing of the Presidents' Conference and the Board for further discus-
sion at that time.

In connection with the anticipated visits during the winter
of representatives of State Bankers Associations, Mr. Evans stated
that he had suggested to Mr. Needham, General Counsel of the American
Bankers Association, which sponsored the visits of such representa-
tives to Washington, that he undertake to ascertain from the repre-
sentatives of each Association what they would like to discuss with
the Board during their visit to the Board's building and that Mr.
Needham had indicated that he would be glad to follow that procedure.
Mr. Evans also asked for any suggestions that the Presidents might
have to make in this connection.

At this point Mr. Thurston left the meeting.

10. Effect of increased reserve requirements on membership in the
Federal Reserve System. The Conference discussed the possible
effect which the increase in reserve requirements, effective
September 16 and 24, 1948, would have on membership in the
Federal Reserve System, either as a deterrent to the acquisi-
tion of new members or as a factor contributing to withdrawal
by present members. During the discussion an opportunity was
given to each President to express his views and experiences to
date. Although variations in the intensity of the possible ef-
fect were present in the views expressed, the consensus was
that the increase in reserves will constitute a major obstacle
in obtaining new members. Several of the Presidents reported
that the increase has resulted in widespread dissatisfaction
among present members in their districts, although it is still
too early to determine whether withdrawals in any appreciable
number will result. Several of the Presidents did express
the view, however, that had the increase approached the 4 and
10 per cent once widely discussed actual withdrawals might
have been widespread and numerous.
Chairman McCabe commented that the Board had no disagreement with the Presidents' statement.

In a discussion of the reaction throughout the country to the recent increase in member bank reserve requirements, Chairman McCabe suggested that the members of the Federal Advisory Council could be very helpful in bringing about a better understanding of member bank reserves and the purpose which they served as an instrument of credit control.

11. Uniform agreement as to bank examination procedure. The Committee on Bank Supervision reported that it had met with Mr. Leonard and Mr. Millard of the Board's staff, who had reported on the meeting held on August 30 with Mr. Folger, Chief National Bank Examiner, and Mr. Shearer, representing the Federal Deposit Insurance Corporation, to continue discussions regarding revision of the uniform agreement entered into by the three Federal bank supervisory agencies in 1938. The Committee received and distributed to the Presidents Mr. Leonard's memorandum setting forth the areas of agreement and disagreement in that meeting. The Committee reported that it believed that the Conference should be aware of the attitude now manifested by the other Federal supervisory agencies and that it is in sympathy with the general position taken by the Board's representatives. The Conference expressed its support of the general principles of the 1938 agreement. It recognized that revision may be necessary and desirable, but expressed the belief that the existing agreement should not be abandoned lightly, and that modifications should be made only after careful consideration and agreement by the three agencies concerned. The Conference further expressed the belief that final agreement on a revised statement of uniform examination procedure will require top-level consultation and determination, and proposed that the subject be raised with the Board of Governors in order to be informed as to the prospects for such discussion and agreement.
Mr. Clayton stated that the attitude of the Presidents as outlined in the above statement was the same as that of the Board. He also said that when the discussions of the proposed revision of the uniform agreement entered into in 1938 began with Messrs. Delano, Comptroller of the Currency, and Harl, Chairman of the Federal Deposit Insurance Corporation, it was apparent that there might be agreement on some minor modifications but that there were certain fundamental differences that up to the present time had not been resolved. There was a feeling, Mr. Clayton said, that greater progress might be made if a staff group were appointed to study the problem, and that, although the staff group had reached agreement on several administrative changes, they had gone about as far as they could go and the fundamental differences had continued. He added that the most important point of difference was in the treatment of depreciation of securities, that the Comptroller of the Currency was of the opinion that the banks should be required to charge off depreciation on marketable securities, and that the Comptroller was of the view that, so far as United States Government securities and obligations of States were concerned, he would be willing to continue the rule provided in the 1938 agreement but would want to require a periodic charge off of depreciation. Mr. Clayton felt that this proposal ran directly contrary to the policy of the 1938 agreement, i.e., that banks would be treated as going concerns and not as if they were
being required to be liquidated on the date of the examination. He went on to say that the discussions were still at a staff level and that at the appropriate time the Board would consider the matter when there would be a decision on the question of whether a further effort would be made to get an agreement on the part of the three bank supervisory agencies.

Mr. Sproul stated that the Presidents had assumed that the 1938 agreement was still in effect, and felt strongly that it should not be abandoned thoughtlessly. He asked if the agreement was still being observed in fact by the other bank supervisory agencies or whether it was being abandoned in the field bit by bit without a determination of the policy question whether that should be done.

Mr. Clayton responded that, so far as he was aware, the agreement was being lived up to. However, he said, there was one important point that had been agreed to: that the agreement could not be used as a cloak to conceal objectionable investment policies. In this connection, he referred to a recent instance of such a case where the bank held ten times as many municipals as United States Government securities, indicating an investment policy which could not be justified under the 1938 agreement. He repeated that the agreement was being followed, that if any instance was found where a national bank examiner was failing to carry it out, the matter was reported to the Comptroller of the Currency and he took steps to see that the examiner was brought into line.
12. Commodity Credit Corporation policy with respect to loans, and particularly interest rates. The policy and practices of the Commodity Credit Corporation with respect to crop loans, and particularly interest rates, was discussed by the Presidents. Under existing practice banks making these loans receive only 1-1/2 per cent, the Commodity Credit Corporation receiving the remaining 1-1/2 per cent, and experience demonstrates that banks will not take the loans in the required volume at such interest rates. Several of the Presidents expressed the belief that banks should receive 1-3/4 per cent. A memorandum, prepared by Mr. Thomas of the Board's staff, in which the belief is expressed that the Commodity Credit Corporation's policy should be adjusted, was read to the Conference. The Conference believes that the Federal Reserve System has an interest in seeing that financing of this type is accomplished through banks, and the Presidents would like to discuss the matter with the Board with a view to obtaining its assistance.

Mr. Davis amplified the above statement with a comment that the Presidents would like to raise the question whether it would be possible for the Commodity Credit Corporation to receive 1-1/4 per cent and the commercial banks 1-3/4 per cent of the three per cent interest rate on these loans, and to say that, if such an arrangement would be effective in placing these loans with the banks instead of with the Commodity Credit Corporation, it would be a desirable arrangement from the standpoint of System credit policy. He also said that the Presidents would like the advice of the Board as to the best procedure to be followed in the circumstances.

Mr. Evans suggested that the most effective way to get the result proposed by the Presidents would be to discuss the matter with the Treasury, which was interested in it from the standpoint of the budget. He also said that the Commodity Credit Corporation would
have an interest in the problem from a public relations standpoint, and that if the Presidents thought it desirable to do so, the Board could take the matter up with Fiscal Assistant Secretary of the Treasury Bartelt with the suggestion that the matter be considered in the light of the increase in short-term rates that had taken place and the desire of the Treasury to have the Banks carry as many of these loans as possible as a means of keeping the expenditures of the Government down and as part of the program for combating inflation.

The Presidents indicated agreement with this procedure.

Mr. Davis stated that the Presidents would be glad to be of assistance in any way that they could and Mr. Evans suggested that it would be helpful if they would promote discussion of the matter in their respective districts.

13. Increase in Federal Reserve Bank capital accounts. The Conference reviewed the procedure to accomplish a more rapid increase in capital accounts of Reserve Banks as set forth in the Board's telegram of July 1, 1948, to the Presidents, in which the Board stated that the procedure contemplates approximately $30 million will be added to contingent reserves during 1948. The Conference expressed the hope that nothing will prevent or interfere with retention of $30 million for the present year and that consideration will be given to retention of an even greater amount for the following year.

Chairman McCabe stated that the Board was in agreement with the Presidents' position and that the present arrangement, if continued to 1949, would result in $40 million being added in that year
Mr. Davis stated that the Presidents would feel much more comfortable if the size of the contingent reserves were substantially larger and suggested that consideration might be given to the retention in 1949 under the present arrangement of as much as $15 million in each quarter.

Mr. Eccles referred to the changed conditions since the existing arrangement was adopted, including the substantial increase in long-term security holdings of the System and the possibility of substantial additional amounts of such securities being acquired in the future. He stated that careful consideration should be given to increasing the amount withheld under the existing arrangement and suggested that, unless there were valid reasons for not doing so, any amount withheld should be placed in the surplus accounts of the Federal Reserve Banks instead of being carried as a reserve for contingencies. Several of the Presidents indicated strong agreement with this suggestion.

Chairman McCabe stated the matter would be discussed by the Board for the purpose of considering what further action might be taken.

14. Administration of Regulation W. The Conference discussed administration of Regulation W and the importance of uniform and good enforcement of its provisions, particularly in light of the Congressional authority under which it has been issued. The Presidents indicated that all of the Reserve Banks recognize fully their responsibility in the administration and enforcement of Regulation W and that they are organizing to discharge these responsibilities effectively.
Chairman McCabe stated that the Board was pleased with the Presidents' comment and would do everything it could to help make their work in the administration and enforcement of Regulation W as effective as possible.

15. Desirability of emergency electric power facilities at the Reserve Banks and branches. The Conference discussed the subject presented in the Board's letter, dated September 15, 1948, to the Chairman of the Presidents' Conference, in which the Board stated that it had had occasion to consider the extent and desirability of emergency electric power facilities at the Federal Reserve Banks and at the Board's offices in Washington and requested that consideration be given to what, if any, program for the System as a whole should be adopted. While the Presidents recognize that such facilities may be desirable under all the circumstances in a particular case, they believe that uniform treatment of this matter is impossible because of physical and other reasons.

Chairman McCabe stated that the Board had no further comment to make on this topic.

16. Study of effects of Supreme Court decision in Cement Company case. In accordance with the request made in a memorandum, dated September 30, 1948, from the Board to the Chairman of the Presidents' Conference, the Conference gave consideration to the question whether a study of the effects of the Supreme Court's decision in the Cement Company case should be made on a System-wide or regional basis. The Conference feels that it would be impossible to conduct a useful or satisfactory study on a national basis and that, if such a study is made, it should be on a regional basis, since the effect of the Court's decision will vary with the industries and areas involved. Without implying that any Bank should undertake such a study in its own district, the Conference feels that there would be no objection to any Reserve Bank's undertaking a study of this nature.

It was stated that the Board was referring this question to the Committee on Current Business Developments for recommendation as
to the procedure that might be followed if such a study were undertaken, and that the Board would defer a decision until the recommendation of the Committee had been received.

Mr. Davis emphasized that the Presidents felt that any study of this matter in order to be useful would have to be on an industry or regional basis. He also said that the Business Advisory Committee of the Department of Commerce was making a nation-wide study and it was not believed that the System should undertake to duplicate that study.

Mr. Eccles questioned whether a study by the System in this field was one that should be undertaken.

Mr. McLarin stated that the problem was regarded by the directors of his Bank as a very important one from the standpoint of the sixth Federal Reserve District, that the System was interested in commerce, industry, and agriculture in addition to the strictly monetary and credit field of research, and that it was the feeling of his directors that if the decision of the Supreme Court should continue undisturbed it would have a very marked effect on the possible future development of the South. For that reason, he said, his Bank had proposed to make a contract with Emory University for the services of a qualified expert to make a study of the problem in so far as it might affect the sixth Federal Reserve District.
Mr. Davis stated that the question whether Atlanta should undertake the study was one on which the Presidents' Conference felt it should not express an opinion.

17. Date for next meeting of Presidents' Conference.

Question was raised as to the date for the next meeting of the Presidents' Conference, and there was agreement with the suggestion that the meeting be held late in November or early December with the understanding that only topics which the Presidents and the Board felt required consideration would be placed on the agenda for discussion at that time. In the light of this understanding, it was the consensus that the meeting of the Presidents, the Federal Open Market Committee, and the joint meeting of the Presidents with the Board could be completed in three days. Accordingly, it was agreed that the meetings should be called to meet on November 29, 30, and December 1, 1948, in accordance with a program the details of which would be arranged later.

Thereupon the meeting adjourned.

Approved:

Chairman.