

12/13/49
Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, December 12, 1949.

PRESENT: Mr. Eccles, Chairman pro tem.
Mr. Szymczak
Mr. Draper
Mr. Vardaman

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 December 9, 1949, were approved unanimously.

Memorandum dated December 9, 1949, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the appointment of Mrs. Frances T. Kurtz as an operator (key punch) in that Division be extended on a permanent basis with no change in her present basic salary of \$2,650 per annum, effective December 14, 1949.

Approved unanimously.

Letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

"As requested in your letter of November 25, 1949, the Board of Governors authorizes your Bank to proceed with the preparation of final plans for a new building for the Jacksonville branch on the basis of the revised preliminary plans dated November 10, 1949.

"This authorization is given with the understanding that, as is the usual course in such cases, the final plans for specifications will be submitted to the Board for consideration prior to asking for bids."

Approved unanimously.

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

"There have been forwarded to you today under separate cover _____ copies of form F. R. 107 to be used by State member banks in submitting their reports of earnings and dividends for the calendar year 1949, and _____ copies of the revised form F. R. 107a, Instructions for the Preparation of Reports of Earnings and Dividends.

"The earnings report form is the same as the one used for the first half of 1949.

"The revisions in the instructions pamphlet, form F. R. 107a, have been made to clarify various portions of existing instructions and to make them consistent with changes in the report forms. As indicated in the attachment, they do not effect any substantive changes."

Approved unanimously, with the understanding that the letter would be sent when the forms referred to therein were printed and ready for distribution.

Letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"Reference is made to your Bank's letter of November 23, 1949, in which you advise that it appears expenses for certain functions at the Charlotte Branch will exceed the 1949 estimates as follows:

<u>Function</u>	<u>Amount</u>
Provision of Space (includes \$6,000 previously advised)	\$8,000
Furniture and Equipment	17,000

"The Board accepts the revised figures as submitted, and appropriate notations are being made on the Board's records."

Approved unanimously.

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Letter to Mr. Earhart, President of the Federal Reserve Bank of San Francisco, reading as follows:

"Reference is made to your Bank's letter of November 22, 1949, in which you advise that it appears expenses for certain functions at your head office and branches will exceed the 1949 estimates as follows:

Function	Head Office	Los Angeles	Port-land	Salt Lake City	Seattle
Provision of Space	\$23,000	\$13,000	\$5,800	\$5,100	\$13,000
Provision of Personnel	12,000				
General Service	12,000		6,400	6,500	
Postage and Expressage			3,500	3,300	
Insurance	1,500	500			
Discount and Credit Securities			600		
Currency and Coin		900			
Planning	75,000	25,000	14,100	10,500	
Bank and Public Relations		150			
Auditing		1,600		1,100	1,000
Bank Examination	10,000	3,400		1,300	
Federal Reserve Note Issues	55,000		500	700	
Research and Statistical				800	
Fiscal Agency		14,000			

"The Board accepts the revised figures as submitted, and appropriate notations are being made in the Board's records."

Approved unanimously.

Letter to Mr. Dearmont, Chairman of the Conference of Chairmen of the Federal Reserve Banks, Federal Reserve Bank of St. Louis, reading as follows:

"You will recall that the Conference of Chairmen on May 29, 1949, requested that the Board, after a study of the legal problems involved, authorize an arrangement (either within or outside the Retirement System of the Federal Reserve Banks) under which a minimum allowance of \$10,000 would be assured to any President

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"of a Federal Reserve Bank who retired after attaining age 65 and completing at least 10 years of service.

"In examining the legal problems involved in making additional payments to the Presidents, informal discussions have been had with the Bureau of Internal Revenue and it is probable that if a plan were set up under which such payments were made as a part of the Retirement System its present tax exempt status might be brought into question. It is our understanding that this difficulty with respect to the Retirement System would not arise if the supplemental payments were made by the Reserve Banks themselves and kept separate and apart from the Retirement System.

"However, serious questions arise as to how such additional payments would be taxed to a President who received them. There appears to be a very real danger that, in the absence of a prior ruling from the Bureau of Internal Revenue, a revenue agent might attempt to tax the President in the year he retired on the total present value of all the additional payments he would be expected to receive in the future. We are not in position to say definitely whether it would be possible to get a favorable advance ruling on the point but in view of the unique features involved there appears to be some possibility of obtaining such a ruling which would hold that the payments would be taxable only year-by-year as they are received. In any event it would seem to be unwise to proceed with any such arrangement without seeking such a ruling.

"In the circumstances, the Board proposes to present the matter to the Bureau of Internal Revenue for a ruling and at the same time to request confirmation of our understanding that the payments proposed would not impair the tax exempt status of the Retirement System. The status of our negotiations with the Bureau of Internal Revenue is such as to make it desirable to go forward promptly if we are to proceed with the matter. Accordingly, we are writing the Chairmen of each of the Federal Reserve Banks whose President would receive a regular retirement allowance of less than \$10,000 per annum if he retired after reaching age 65, and asking them to let us know if they see any objection to this procedure. We will also appreciate it if you will let us know if you see any objection to the procedure. As we are advising those Chairmen, unless some objection is indicated on or before December 22, we will understand that there is none.

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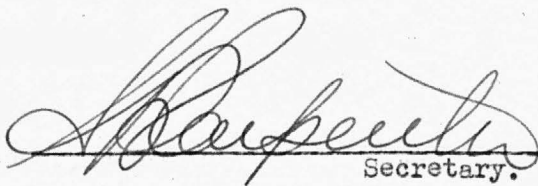
"In considering the various phases of the matter, the Board has concluded that it would not be desirable to attempt to work out or adopt a general procedure to be applied in all future cases, and that any question of additional payments to a President should be considered in the light of all the circumstances in the particular case. On that basis, the Board has given individual consideration to the case of each of the Presidents now in office who would receive a regular retirement allowance of less than \$10,000 per annum if he retired after reaching age 65 and serving at least 10 years as President. We are advising the Chairmen of those Reserve Banks whose Presidents would have a regular retirement allowance below that figure, that in the event a favorable ruling is obtained from the Bureau of Internal Revenue on how such additional payments would be taxed, the Board would be willing to approve agreements for additional payments to each such President along the lines proposed by the Conference of Chairmen if the directors of the respective banks should wish to make such an agreement with him. Such approval by the Board would be entirely on an individual basis and would not in any way be considered a precedent for any other case.

"We are writing to you as Chairman of the Chairmen's Conference and to Mr. Brainard as Chairman of the Committee appointed by the Conference to study the Retirement System, and we are sending a copy to the Chairmen of each of the Reserve Banks."

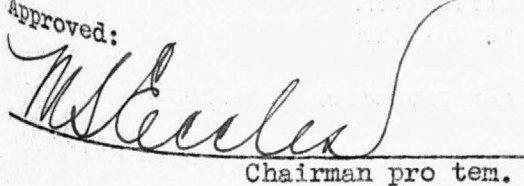
Approved unanimously, with a similar letter to Mr. Brainard, Chairman of the Committee appointed by the Conference of Chairmen to study the Retirement System, with the understanding that copies of these letters would be sent to the Chairmen of all Federal Reserve Banks, and that separate letters would be written to the Chairmen of the Federal Reserve Banks of Boston, Philadelphia, St. Louis, and Minneapolis with respect to the Presidents

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now in service who might re-
receive supplemental retire-
ment allowances under the
proposed procedure.


Secretary.

Approved:


Chairman pro tem.