A joint meeting of the Board of Governors of the Federal Reserve System and the Conference of Presidents of the Federal Reserve Banks was held in the Board's offices in Washington on Friday, February 29, 1932, at 2:15 p.m.

PRESENT: Mr. Szymczak, Chairman pro tem
Mr. Evans
Mr. Vardaman
Mr. Powell
Mr. Mills
Mr. Robertson

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary

Messrs. Erickson, Sproul, Williams, Gidney, Leach, Bryan, Young, Johns, Peyton, Leedy, and Gilbert, Presidents of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas, respectively.

Mr. Van Nice, Secretary of the Conference of Presidents.

Mr. Szymczak stated that Chairman Martin was unable to be present at this meeting as he was participating in a conference at the Treasury Department with respect to debt management problems.

Mr. Leedy reported that he had discussed with Mr. Bartelt, Fiscal Assistant Secretary of the Treasury, the matter of holding a Fiscal Agency Conference at the Federal Reserve Bank of Kansas City this year, and that the latter had concluded that it would be better if such a conference were not held this year but that he would like to suggest a conference early in 1933, possibly in April or May.
Before this meeting there had been submitted to the Board a memorandum listing the topics to be discussed at this joint meeting and stating the views of the Conference of Presidents with respect to each topic. Mr. Szymczak said that the Board had considered the memorandum only in a general way and had taken no position regarding any of the topics but that it would be pleased to discuss the topics at this meeting and to have the benefit of any additional views concerning them that the Presidents might care to offer, and that in those cases where action on the part of the Board was called for, the Board would consider the matters as soon as practicable and advise the Presidents of its views.

The topics, the statement of the Conference of Presidents with respect to each, and the discussion concerning them at this meeting were as follows:

1. **Possibility of making a broad, general study of the nation's check collection system.** The Conference considered the possibility of making a broad, general study of the nation's check collection system, the question having previously been a topic of Conference discussion at its meeting of September 27-29, 1951, and suggested procedures for such a study having been contained in a report dated February 14, 1952, of the Subcommittee on Collections to the Committee on Collections and Accounting (pp.12-15). It was the feeling of the majority of the Presidents, both at the September meeting and at this one, that such a broad, general check collection study should be made and that, if possible, it should be made in cooperation with, and with the participation of, representatives of the commercial banking system. In
its outline of suggested procedures, the Subcommittee proposed that the study be carried out by a committee of five, consisting of two Federal Reserve Bank representatives, two commercial bank representatives, and one representative of a leading industrial engineering firm or research institute experienced in comparable survey work. The Subcommittee further suggested that the fundamental objective of such a study should be the determination of what changes should be made in the nation's present check collection system as would produce a system reflecting as fully as possible these factors:

(a) minimum collection time
(b) handling of checks by minimum number of banks
(c) handling of checks by banks best able to handle particular classes of items

The Presidents accepted the recommendation of the Subcommittee subject to exploration by the Presidents' Conference Committee on Collections and Accounting of the possibility of obtaining satisfactory cooperation of the commercial banking system in making such a survey. To accomplish this purpose, the Committee on Collections and Accounting was authorized to discuss the matter with such representatives of the commercial banking system as the Committee thinks desirable and to make minor changes in the procedures suggested in the Subcommittee's report if such meetings indicate evidence of an objective approach on the part of the commercial banks. The Presidents have placed this topic on the agenda of the joint meeting of the Board and the Presidents to obtain the Board's views and advice concerning the proposed study and suggestions as to possible procedures.

Chairman Peyton recalled that such studies of the check collection system as had been made to date under Federal Reserve auspices had been confined to the Reserve System. He said that in the opinion of the
Presidents a comprehensive study of the type outlined by the Subcommittee on Collections would be productive if it could be ascertained that the commercial banking system would cooperate and if it appeared that all Participants would approach the study objectively. Because of doubt which had been expressed that an objective approach could be achieved, Chairman Peyton said, the Conference proposed at this time only that the Committee on Collections and Accounting be authorized to explore the possibility of a joint study with representatives of the commercial banking system. He went on to say that if it were concluded on the basis of the Committee's exploratory discussions that satisfactory cooperation on the part of all participants could be obtained, further consideration would be given to procedures for carrying out the project.

Reviewing the discussion of this topic at the meeting of the Board earlier today, Mr. Powell said that inasmuch as the contemplated study evidently would be somewhat costly, it was presumed that the Board would be requested to approve the expenditure involved should the preliminary study by the Committee on Collections and Accounting result in a favorable recommendation. He also pointed out that although the study would be concerned principally with an operating matter and, therefore, might properly be conducted by the Reserve Banks, there were certain features involved, such as the effect on the amount of float, which would be of direct interest to the Board and would indicate that the Board should participate in the survey in some way or at least should be kept closely
advised of its progress. Mr. Powell further stated that the Board was concerned that in the exploratory discussions of the Committee on Collections and Accounting the support not only of the city correspondent banks but of all classes of banking institutions be solicited.

In a discussion of Mr. Powell's comments it was stated that the Proposal of the Conference at this time did not go further than the making of an exploratory study, that the Board's interest in the study was recognized and would have to be taken into account in some suitable manner if the study were approved, and that, although it seemed apparent that the large city banks would be the institutions primarily interested in the study, the cooperation of all classes of banks would be sought. Mr. Leach suggested that in order to gain the support of all categories of institutions it would no doubt be necessary for the Committee on Collections and Accounting to take the matter up with the American Bankers Association.

Mr. Mills commented that care would have to be exercised in discussing the project with commercial bankers to make it clear that there was no thought on the part of the System that the study was for the purpose of disturbing existing correspondent bank relationships. There was agreement on this point.

replace the present Federal Reserve Leased Wire System. The American Telephone and Telegraph Company's proposal was outlined in a report entitled "A Communications Proposal for the Federal Reserve System" submitted by that company in November 1951 and calls for a fully integrated, automatic system with duplex-type circuits and a single switching center to be located at Richmond, Virginia. In considering the Subcommittee's recommendation, the Conference noted that the proposed change would affect the Treasury Department, the Reconstruction Finance Corporation, and the Commodity Credit Corporation, all of which make use of the present Leased Wire System. It was suggested that, subject to Board approval of the proposed change, the Board be asked to take the matter up with Treasury representatives and others who might be interested in order that their consent to the change might be obtained before specific contracts are entered into. This topic is placed on the agenda of the joint meeting for discussion and so that, if the Board approves, the Subcommittee on Cash, Leased Wire, and Sundry Operations may be authorized to draw up the necessary contracts to be entered into with the American Telephone and Telegraph Company.

Chairman Peyton said that it appeared from the report of the Subcommittee on Cash, Leased Wire, and Sundry Operations that the proposed communications system would provide more efficient and economical service than that afforded by the present leased wire system, and in the circumstances it was the recommendation of the Conference that the change-over be approved by the Board, provided the Board ascertained from the Treasury Department and others who use the leased wire system that they would have no objection.
Mr. Gilbert pointed out in this connection that the proposed system was designed to take care of a load 50 per cent greater than that now being handled.

3. **Assumption of war risks under Loss Sharing Agreement.** The Conference accepted a recommendation contained in a resolution adopted by the Insurance Committee of the Federal Reserve Banks at its October, 1951 meeting calling for amendment of the Loss Sharing Agreement of the Federal Reserve Banks to cover losses suffered by Reserve banks as a result of war or warlike activities. The resolution was set forth in a letter dated February 8, 1952, from the Chairman of the Insurance Committee to the Chairman of the Committee on Miscellaneous Operations. The Insurance Committee specifically recommended that only that portion of a Bank's war loss which, when added to all previous war losses of that Bank, was in excess of a certain minimum amount should be covered by the Loss Sharing Agreement. The Committee also recommended that any war loss which, when added to all previous war losses of all of the Federal Reserve Banks, exceeded a certain maximum amount should require approval by a two-thirds combined vote of the Conference of Presidents and of the Board of Governors before distribution under the Agreement could be made. (A draft of the suggested amendment was submitted in a report dated January 25, 1952, of the Legal Subcommittee of the Insurance Committee to the latter Committee.) In accepting the recommendation of the Insurance Committee, the Presidents agreed that the minimum amount of war loss, below which distribution would not be made under the Loss Sharing Agreement, should be $100,000; and that the maximum amount of loss, beyond which approval of the Board and Presidents would be necessary for distribution, should be 50 per cent of the combined Section 7 Surplus and Contingent Reserves of all the Banks. It was the consensus of the Presidents that if and when Congress provides for other means of war...
damage protection the question will again be reviewed for the purpose of considering possible further amendment of the Loss Sharing Agreement in the light of such legislation. The Presidents would welcome the Board's views on the proposed amendment and have placed this item on the agenda of the joint meeting for that purpose.

Chairman Peyton said that although any formula which might be devised for the assumption of losses occasioned by enemy action would leave room for differences of opinion, it was evident that if heavy losses were sustained by any of the Reserve Banks some distribution thereof would have to be made by the System, and it seemed preferable to have prior agreement on a method of loss-sharing.

4. **Capital requirements of State member banks.** It is the understanding of the Conference that a draft of a bill, which would remove one of the deterrents to Federal Reserve membership by State banks, through the elimination of certain statutory requirements with respect to capital stock, has been cleared by the Budget Bureau and the Comptroller of the Currency. It is also understood that the Federal Deposit Insurance Corporation objects to the bill in its present form. Although this topic has been the subject of discussion at previous meetings of the Board and the Presidents, the Presidents are placing it on the agenda of this joint meeting as an indication of their continuing interest in the eventual passage of such a bill and to be informed of any recent developments which the Board may think of interest.

Mr. Powell stated that the Board deemed it inadvisable to submit to the Congress the draft of bill which had been prepared in the face of objections to it which were expressed in a letter from the Chairman of the Federal Deposit Insurance Corporation, and that in the circumstances it
was decided to refer the matter to Mr. Robertson, who at the time of the Board discussion had not yet assumed his duties as a member of the Board, in view of the fact that Mr. Robertson had worked closely with the Federal Deposit Insurance Corporation while serving as Deputy Comptroller of the Currency and might be able to suggest some way in which the matter might be presented to the Congress without opposition from the Federal bank supervisory agencies.

Mr. Robertson said that he had not yet had an opportunity to review the matter fully, but noted that the objections expressed by the Federal Deposit Insurance Corporation were on the basis that it would oppose any move which might tend toward a reduction of bank capital. He doubted whether it would be possible to obtain the support of the Corporation but thought that an agreement that it would not oppose the bill might be worked out.

5. Possibility of additional retirement allowances for certain retired members of the Retirement System through supplementary contributions. There was a general feeling on the part of the Presidents that, as was suggested at the meeting of the Trustees of the Retirement System on May 17, 1951, it would be desirable to consider the possibilities of increasing the retirement allowances of retired members of the Retirement System in view of the general inadequacy of present allowances in relation to current price levels. The Conference agreed, however, with the conclusion of the Retirement Committee in its report dated December 17, 1951, to the Trustees of the Retirement System that there appears to be no feasible method by which the Retirement System can increase such allowances unless the employing Banks
are authorized to provide such increases by supplemental payments. These might be either in the form of contributions to the Retirement System or in the form of additional compensation paid directly to retired members by the respective Banks as suggested in the memorandum dated December 6, 1951, from Mrs. Valerie R. Frank to Mr. Johns. The Presidents wish to inquire whether the Board would collaborate with representatives of the Conference in exploring the possibilities of providing such additional retirement allowances.

Mr. Leedy said that in his opinion something should be done, if at all possible, to aid retired personnel whose allowances had become inadequate due to increases in the cost of living. He thought that an exploration of the matter might disclose some feasible method by which assistance could be extended.

Mr. Sproul pointed out that there was some element of urgency in undertaking a study of the problem since the next meeting of the Board of Trustees of the Retirement System would be held in May or June and it would be desirable to know what disposition could be made of the matter at that time so that the trustees could take any necessary action.

It was noted that Mrs. Frank's memorandum of December 6, 1951, to Mr. Johns discussed several possible approaches to the problem, and it was understood that copies of the memorandum would be made available to the members of the Board for their consideration.

At this point Mr. Earhart, President of the Federal Reserve Bank of San Francisco, joined the meeting.
Executive Development and Training Program for the Federal Reserve System. The Conference expressed a deep interest in a discussion by the Chairman of the Committee on Personnel of certain suggestions for implementing a program of executive training and development for the Federal Reserve System which were contained in a memorandum written November 26, 1951, by the Board's Director of Personnel Administration to Governor Norton. It was the consensus of the Conference that the success of such a program is dependent not only upon the enthusiasm of the Board of Governors and the Presidents for such a program, but also upon its close integration with salary administration for Bank executive personnel.

In view of the Presidents' belief that solution of the long-range problems of salary administration is fundamental to the success of any training and development program, and, in the light of the Board's letters of February 26, 1952, to each of the Reserve Bank Chairmen with regard to salary administration and its relation to salary stabilization regulations, the Conference suggests a thorough exploration of the entire subject by its Personnel Committee, the Board, and representatives of the Chairmen's Conference. The Conference believes the problems involved are too deep and far-reaching to be resolved by discussion at this meeting of the Board and Presidents but would welcome any suggestions which might have bearing on such an exploratory study if it is approved.

There was a general discussion of official salaries and executive development in the light of the Board's letters of February 26, 1952 and the regulations of the Salary Stabilization Board and the actions that might be taken under such regulations.
In response to an inquiry by Mr. Evans whether the Presidents were favorably impressed by the suggestions for implementing a program of executive training and development contained in the memorandum of November 26, 1951, from the Board's Director of Personnel Administration, Mr. Sproul commented that the success of such a program was dependent on the provision of adequate compensation and willingness on the part of the Federal Reserve Banks to teach and train promising men.

7. The Bank Examination and Supervisory Function of the Federal Reserve System. The Conference considered at some length the conclusion set forth by the Federal Reserve Bank of New York in its memorandum of July 20, 1951, (revised August 15, 1951) which was, in effect, a recommendation that that Bank be permitted to lessen the frequency of its examinations of certain State member banks, and which conclusion was further discussed in letters dated October 22, 1951, and December 13, 1951, from the New York Bank to the Board of Governors and in the Board's letter of November 28, 1951, to the Bank.

There was considerable disagreement among the Presidents as to the advisability of adopting the step recommended by the New York Bank, and particularly with regard to the practicability of allowing similar relaxations in other Federal Reserve districts. A majority of the Presidents, however, agreed that, in view of the situations which gave rise to the recommendation set forth in the New York memorandum, the Conference suggest to the Board its possible consideration of experimentation with a more flexible policy of bank examination requirements insofar as frequency of examination is concerned.

Chairman Peyton said that discussion of this subject within the Conference revealed conflicting points of view, some of the Presidents
believing that unfortunate consequences would result should any of the Reserve Banks be permitted to relax the standards of examination frequency currently followed, while others thought that if any Reserve Bank concluded that conditions within its district were such that experimentation would be warranted, that Bank in its discretion should be allowed to institute such changes.

Mr. Leach said that in his opinion the matter went much deeper than the question of frequency of examinations, the fundamental issue being whether the System wanted to stay in the bank examination field. Despite the obvious fact that some State bank supervisory authorities were much less competent than others, Mr. Leach said, an acceptance of examination reports of State member banks made by one State department and a failure to accept those made by another department would pose practical difficulties and would strain relationships between the Reserve Banks and the State authorities. He maintained that under present procedures there was little duplication, and pointed out that without assistance from the Reserve Bank in joint examinations the State authorities would be unable to conduct examinations of larger institutions satisfactorily unless they increased their staffs considerably. Mr. Leach added that examination by Federal Reserve examiners was regarded by some commercial banks as an important reason for membership in the System.

Mr. Sproul called attention to the fact that the mandate given
the System by law was to help provide the best possible system of bank supervision, which he thought clearly implied elimination of any unnecessary duplication or overlapping at the Federal and State levels. He deplored the general tendency of supervisory bodies to retain authority, stating that there must be a break with tradition at some point and that only by experimentation could it be determined what steps could be taken without reducing the effectiveness of the bank supervision function. The New York Bank's plan, Mr. Sproul said, contemplated examining frequently those banks which appeared to be in need of close supervision while keeping currently informed as to the other banks through scrutiny of examination reports prepared by State banking departments acknowledged to be competent. While he recognized that some difficulties might be encountered in maintaining good relations, he also felt that a realistic approach might in the longer run encourage some States to strengthen their banking departments and become better able to take responsibility for the examination of State banks in their respective States. Mr. Sproul brought out that the varying conditions in the different Federal Reserve districts seemed to lend weight to the theory that uniform policies for the System as a whole were not warranted. He also suggested that no Reserve Bank would be compelled to accept examination reports of State authorities if it did not choose to do so and that one Federal Reserve Bank should not be governed by conditions in another district.
There was a discussion of the differing views expressed by Messrs. Leach and Sproul. Expressing agreement with Mr. Sproul's position, Mr. Vardaman said he felt strongly that the time had come when the System should consider relinquishing certain of its functions if it desired additional authority in other fields. He stated that he had given much thought over the years to the problem of bank examination and supervision, and, as he had announced publicly, had come to the conclusion that the function should be centralized. Mr. Vardaman inquired whether the Presidents had considered exploring the matter objectively to find out whether the System was achieving the best degree of supervision under present procedures and, if not, what steps could be taken to improve the situation, to which Chairman Peyton responded by saying that the discussion of these matters had resulted in the divergence of opinion indicated in the positions taken by Messrs. Leach and Sproul.

Mr. Sproul referred to the discussion of conflicts of authority in bank supervision contained in the Board's Annual Report for 1938 and suggested that that study might serve as the basis for a reexamination of the problem at this time.

8. Reports by Reserve banks of steps taken to assure continued operations in the event of war emergency. In accordance with the Board's request contained in its letter of January 21, 1952, to each of the Presidents, that he submit a report concerning the steps taken by his Bank, and branches if any, to permit continuation of operations in the event of a bomb- ing attack or similar emergency, such reports were
submitted to the Conference Secretary for delivery to the Secretary of the Board of Governors. Such delivery has been made. The Conference would welcome a discussion of any phases of this topic which may be of interest to Board members.

Mr. Powell explained that there appeared to be no necessity for discussion of this topic at this time, the reports submitted by the Reserve Banks having been requested to enable the Board to compile information for the benefit of the National Security Resources Board, which was engaged in a study of the measures taken by various classes of institutions to assure a continuance of functions essential to the nation's economy in the event of an enemy attack.

9. Possible amendment of Board's S-letter 826 to permit Reserve banks to make contributions to Community Funds, the Red Cross, etc. In connection with a general discussion of the desirability of Reserve Banks' being permitted to make contributions to such organizations as Community Funds, the Red Cross, and hospitals, it was noted that such contributions are not now permissible under the Board's S-letter 826 (Federal Loose-Leaf Service No. 3187). The Conference was generally agreed that such contributions are desirable from the standpoint of the Banks and suggests that the Board again give consideration to the possibility of amending its regulation so that the Reserve banks might be able to make such contributions in cities of Bank and branch residence at the discretion of their own boards of directors and in conformity with whatever broad directive the Board might issue.

Mr. Bryan stated that the Reserve Banks were placed in a difficult
Position when forced to turn down representatives of welfare organizations who, in soliciting contributions, presented evidence of the services which their organizations had extended in various ways to the Reserve Banks and their personnel. In the circumstances he urged that the Board amend its outstanding instructions so as to grant the Banks some leeway which would enable them to make contributions to defray the expenses incurred by welfare agencies for services rendered.

In answer to a question by Mr. Vardaman, Mr. Bryan said that he felt contributions logically could be restricted to organizations located in cities where Reserve Banks and branches were situated.

Mr. Erickson referred to a survey made at the Boston Bank which confirmed that a large percentage of the Bank's personnel had used the facilities of Community Chest agencies in some manner during 1951, while Mr. Gidney said that in his opinion the Reserve Banks had obligations as good corporate citizens which must be recognized. Mr. Gidney thought that contributions should be limited ordinarily to a few recognized organizations such as the Community Chest and the Red Cross.

In response to a question by Mr. Robertson it was stated that the Board, in considering the question on previous occasions, had concluded that it could not authorize the Reserve Banks to make expenditures of Federal Reserve Bank funds by way of donations to further purposes, no matter how worthy, which were not directly related to the conduct of the affairs of the Banks.
Mr. Sproul stated in this connection that his analysis of the legal provisions involved led him to believe that the Board might be able to modify its position in such a way as to give the directors of the Reserve Banks authority to act within certain limitations.

10. Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report (Patman Subcommittee). In view of the forthcoming Patman Subcommittee hearings, the Presidents would be deeply interested in discussing with the Board the proposed System approach to such hearings and any present or prospective developments in connection with the Subcommittee's investigation.

Mr. Szymczak said that he believed the Board had little additional information on the Subcommittee hearings which would be of interest to the Presidents. He noted that Messrs. Martin, Powell, Sproul, and Bryan were scheduled to testify during the course of the hearings, that Chairman Martin's reply to the Subcommittee's questionnaire had been concurred in by all of the members of the Board, that the replies to the questionnaire had now become available in printed form, and that the Board had under consideration the preparation of a digest of the replies, copies of which it would be glad to supply to the Reserve Banks if and when the project was completed.

During a discussion of what might be accomplished by way of a digest, it was suggested that it would seem desirable for the Reserve Banks to make some analysis of the replies in order to familiarize themselves
with the content of the answers, and also that the System Research Advisory Committee, which was to meet next week, might be interested in such a project.

This concluded the discussion of the topics listed in the memorandum submitted by the Conference of Presidents.

Mr. Evans referred to the recent regional conferences having to do with the regulation of consumer credit and real estate credit, stating that the Reserve Banks were to be commended for the substantial contributions which they had made to the conferences. He said that the suggestion had been made that the System committee on Regulation W, which was proposed in the Board's letter of January 10, 1952, concerning the compliance and enforcement program, be composed of a representative from each Federal Reserve Bank, but that it was now proposed that a few Reserve Bank representatives be brought together as a preliminary step to getting the larger committee under way.

It was indicated that there would be no objection to such a procedure.

Chairman Peyton stated that Mr. Leach had been elected Chairman and Mr. Gilbert Vice Chairman of the Conference of Presidents for the ensuing year.

Mr. Leach said it was contemplated that the next meeting of the
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Conference would be held during the week of June 16, 1952.

Thereupon the meeting adjourned.

\[\text{Signature}\]

Secretary.