

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, March 20, 1952. The Board met in executive session in the Board Room at 10:00 a.m.

- PRESENT: Mr. Martin, Chairman
 Mr. Szymczak
 Mr. Evans
 Mr. Vardaman
 Mr. Powell
 Mr. Mills
 Mr. Robertson

At the conclusion of the executive session the following members of the staff joined the meeting:

- Mr. Carpenter, Secretary
 Mr. Vest, General Counsel
 Mr. Allen, Director, Division of Personnel Administration

The Chairman advised the Secretary that at the executive session the following actions were taken by the Board:

After consideration of a memorandum prepared by the staff under date of March 17, 1952, the following letter to the Presidents of all Federal Reserve Banks was approved unanimously:

"One of the matters taken up with the Board of Governors at the time of the last Presidents' Conference was the suggestion that the Board give consideration to the possibility of changing the position which it had taken in the past and authorize the Federal Reserve Banks to make contributions to such organizations as Community Funds, Red Cross, and hospitals, such contributions to be at the discretion of their own Boards of Directors and in conformity with whatever broad directive the Board might issue.

"As you know, this matter has been presented to the Board on a number of occasions. It was thoroughly reviewed

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"in 1945 when its letter of January 16, 1945, S-826, was sent to the Chairmen and Presidents of all the Federal Reserve Banks. Subsequently, requests were received by Federal Reserve Banks for contributions of this kind and, after reviewing the matter again, the Board came to the conclusion that the existing policy should not be changed. The Chairmen and Presidents of the Federal Reserve Banks were so advised in the Board's letter of May 13, 1946, S-911.

"In 1950 one of the Federal Reserve Banks, in a thoughtfully worded letter, raised the question with the Board again, and after reviewing the problem thoroughly the Board replied as follows:

"In support of your proposal, you comment that with respect to such contributions the Reserve Banks do not differ greatly from other Federal and State-chartered institutions which recognize their community responsibilities in this manner. We recognize that in the communities in which the Reserve Banks are located, the public may tend not to distinguish between the Reserve Banks and other banks and business concerns which make such contributions, and that there may be some feeling that the Reserve Banks are shirking their responsibilities. We continue to believe, however, that the nature of the organization, purposes, and operations of the Reserve Banks is such as to make it very difficult, at best, to find a direct relationship between contributions for community welfare and the conduct of the affairs of the Reserve Banks which would justify a conclusion that the contributions are necessary expenses of the Reserve Banks; and it seems to us that there is a substantial difference between the Reserve Banks and commercial banks in this respect. In addition, the residual interest of the Government in the assets of the Reserve Banks and the disposition which is now being made of their earnings, raises further doubt as to the propriety of contributions by the Reserve Banks which are not made by Government agencies.

"You also point out that express statutory authority has been given to national banks and to (State chartered)

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"corporations to make contributions of this nature. The fact that such specific authority was considered necessary in the case of national banks is itself a reason for questioning the authority of the Reserve Banks to make these contributions in the absence of a similar authorization. Moreover, you will recall that the original bill to authorize national banks to make such contributions contained a provision authorizing contributions by the Reserve Banks, but this provision was omitted from the bill which was finally enacted. In order to take a liberal position today with respect to contributions by the Reserve Banks, it would be necessary to disregard this legislative history, as well as the long-established position of the Board which might be considered an administrative interpretation of the law.

"While the question concerning the legal authority of the Reserve Banks to make these contributions cannot be answered with finality and there may be well-founded differences of opinion with respect to it, we believe that it is essential that a uniform position be taken by the Reserve Banks. Differences in policy among the Reserve Banks or the fact that a particular Reserve Bank made contributions in certain cities or for certain purposes and did not make other contributions would invite questions by the public and by Congress.

"The absence of other Governmental controls and supervision under existing law places upon the Board and the Federal Reserve Banks a peculiar responsibility to be certain that any expenditures are clearly authorized by law and to be able to justify fully any item which may be questioned.

"In view of the foregoing, the Board, while sympathetic with the motives which prompted your request, does not believe that it should depart from the position which it has taken in the past."

"It is realized that the Federal Reserve Banks may have some difficulty in explaining the unique position they occupy in the local community and why they are different from local banks and business concerns. However, in view of the considerations set forth above, the Board does not believe that it should

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"depart from the position it has taken in the past."

The purchase of an additional 1,000 copies of the printed answers to the questions submitted by the Patman Subcommittee was approved unanimously.

The primary consideration of matters relating to the supervision and examination of State member banks was transferred from Mr. Powell to Mr. Robertson.

At the request of the Chairman, the Secretary reviewed the circumstances surrounding the various actions taken by the Board with respect to the approval of agreements between the Federal Reserve Banks of Boston, Philadelphia, and Minneapolis and Presidents Erickson, Williams, and Peyton, respectively, under which the Bank in each case contracted to pay to the President named after his retirement an amount per annum which, together with his regular retirement allowance under the Retirement System, would aggregate \$10,000 per annum. The Secretary stated that no reply had been received from the Bureau of Internal Revenue to the Board's request for a ruling on the question whether a recipient of payments provided by the agreements would be subject to income tax in the year in which he retired on the total present value of all future payments which he might expect to receive under the agreement. He also said that when President Peyton was in Washington recently he stated that if the agreement went into effect and he were taxed on the

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basis of the present value of the payments he would receive no benefit from them, that he had discussed the matter with his directors, and that he was wondering whether the Board would be willing to approve (1) a contribution by the Federal Reserve Bank of Minneapolis to the Retirement System to provide payments through the Retirement System equivalent to those contemplated by the existing agreement, or (2) an agreement between Mr. Peyton and the Reserve Bank under which Mr. Peyton would be retained as an adviser and the Bank would pay him annually the amount now provided by the existing agreement. Mr. Carpenter made the further statement that the matter had been discussed by the staff and it was felt that, inasmuch as any arrangement made through the Retirement System would be in lieu of the existing agreement which might be subject to taxation, it would be unwise to approve such an arrangement because of the danger that it might subject the entire Retirement System (which is now exempt from taxation as an employees' trust) to taxation because of alleged discrimination in favor of Federal Reserve Bank officers.

It was suggested that in the circumstances there were possibly four alternatives available to the Board: (1) make a further effort to get a ruling from the Bureau of Internal Revenue on the question whether payments under the existing agreements would be taxable in the year in which the President retired, (2) approve the suggestion that the payments

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be provided through the Retirement System, which would raise the question of subjecting the entire Retirement System to taxation, (3) provide the payments by the purchase of an annuity from an outside insurance company, or (4) make no change in the existing agreement and let Mr. Peyton determine whether he would accept the payments subject to the risk that they might be taxed in the year in which he retired.

In the discussion which ensued it was agreed that there was little, if any, likelihood of getting a favorable ruling from the Bureau of Internal Revenue at the present time and that for the reasons stated the payments should not be provided through the Retirement System.

Mr. Robertson suggested that steps be taken by Mr. Peyton or the Board to get the opinion of a tax expert as to whether the payments provided by the existing agreement would be subject to taxation in the year in which Mr. Peyton retired.

Mr. Vardaman suggested that the existing agreements should be cancelled and that the Board should approve an arrangement under which the respective Reserve Banks would enter into a contract of employment with Messrs. Erickson, Williams, and Peyton under which they would receive a stated amount for services rendered after they retired which would be in addition to the amounts which they would receive as retirement benefits under the Retirement System.

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Mr. Szymczak suggested that consideration might be given to the appointment of Mr. Peyton as chairman of the board of directors of the Minneapolis Reserve Bank, in which event he would receive compensation in the form of director's fees.

At the conclusion of the discussion the Secretary was requested to advise Mr. Peyton informally that the Board had considered the various alternatives available and felt that because of the various considerations involved it should not approve any arrangement in lieu of the existing agreement but that it would be glad to reconsider the matter in the light of any additional comments that he might wish to make.

At this point Messrs. Vest and Allen withdrew, and the action stated with respect to each of the matters hereinafter referred to was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 19, 1952, were approved unanimously.

Memorandum dated March 12, 1952, from Mr. Bethea, Director, Division of Administrative Services, recommending that the resignation of Burlon F. Yates, Telegraph Operator in that Division, be accepted to be effective in accordance with his request at the close of business May 2, 1952.

Approved unanimously.

Memorandum dated March 18, 1952, from Mr. Bethea, Director,

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Division of Administrative Services, recommending the appointment of Elizabeth J. Beer as Stenographer in that Division, on a temporary indefinite basis, with basic salary at the rate of \$3,175 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination and subject to the completion of a satisfactory employment investigation.

Approved unanimously.

Telegram to Cecil Puckett, College of Business Administration, University of Denver, Denver, Colorado, prepared pursuant to action taken by the Board on March 13, 1952, reading as follows:

"The Board of Governors of the Federal Reserve System has appointed you Class C director of Federal Reserve Bank of Kansas City for unexpired portion of term ending December 31, 1953, and as Deputy Chairman of Bank for remaining portion of year 1952. Your acceptance by collect telegram will be appreciated."

Approved unanimously.

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

"In accordance with the request contained in your letter of March 12, 1952, the Board of Governors approves the continuation of the payment of salaries to the 12 employees referred to in your letter at rates below their respective grade minimums, with the understanding that none of these employees will be retained in this status for a period in excess of six

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"months from the date of the original employment."

Approved unanimously.

Letter to Mr. Diercks, Vice President, Federal Reserve Bank of Chicago, reading as follows:

"Reference is made to your letter of March 10, 1952, submitting the request of the Genesee County Savings Bank, Flint, Michigan, for permission to establish a branch at Swartz Creek, Michigan, following the proposed purchase of assets and assumption of deposit liabilities of the Bank of Swartz Creek, Michigan, a noninsured private bank.

"In view of your recommendation, the Board approves the establishment and operation of a branch in Swartz Creek, Michigan, by the Genesee County Savings Bank, Flint, Michigan, provided the absorption of the Bank of Swartz Creek is effected substantially in accordance with the plan as submitted and the Federal Deposit Insurance Corporation gives its prior written consent to the assumption of the deposit liabilities of the Bank of Swartz Creek, Michigan, as required by Section 18(c)(2) of the Federal Deposit Insurance Act.

"It is understood the transaction has the approval of the appropriate State authorities and that Counsel for the Reserve Bank will review and satisfy himself as to the legality of the steps taken to effect the absorption and establish the branch."

Approved unanimously.

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

"There have been forwarded to you today under separate cover the indicated number of copies of the following forms, a copy of each of which is attached, for use of State member banks and their affiliates in submitting reports as of the next call date:

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"Number of
copies

Form F. R. 105 (Call No. 123), Report of condition of State member banks.

Form F. R. 105e (Revised May 1948), Publisher's copy of report of condition of State member banks.

Form F. R. 105e-1 (Revised May 1948), Publisher's copy of report of condition of State member banks.

Form F. R. 220 (Revised March 1952), Report of affiliate or holding company affiliate.

Form F. R. 220a (Revised March 1952), Publisher's copy of report of affiliate or holding company affiliate.

"All of the forms relating to the reporting of affiliates and holding company affiliates have been revised.

"Form F. R. 105b (Schedule O), Loans and Advances to Affiliates of This Bank and Investments in and Loans Secured by Obligations of Affiliates, has been eliminated. The decision to discontinue this form was based largely on the desire to reduce the reporting burden of member banks, particularly of those with large trust departments which have a number of 'accidental' fiduciary affiliates. The essential information heretofore contained in Schedule O can be obtained from examination reports should it be required.

"Form F. R. 220, Report of Affiliate or Holding Company Affiliate, and the related publisher's copy, F. R. 220a, have been revised in the interest of clarification and simplification.

"The instructions for the preparation of these forms, formerly printed on form F. R. 220b but now on the back of form F. R. 220, have been revised for consistency and there is also a change in the terms of waiver. The dollar limit of affiliate indebtedness in the terms of waiver has been changed from '\$5,000 or 1 per cent of the bank's capital and surplus, whichever is the smaller' to '\$5,000 or 1 per cent of the bank's capital and surplus, whichever is the greater'.

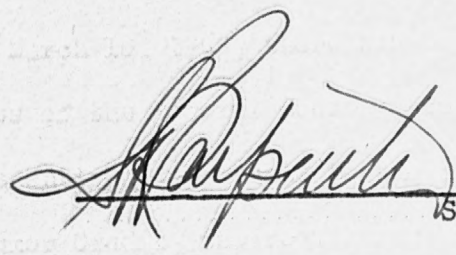
"The affiliate Schedule FF of the Report of Condition, form F. R. 105, has been amended to call for the number of affiliate reports that must be submitted on form F. R. 220, rather than the total number of affiliates as heretofore.

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"The revised instructions and terms of waiver will be substituted on page 23 of form F. R. 105a, Instructions for the Preparation of Reports of Condition, when it is reprinted. In the meantime, you may, if you deem it advisable, send a copy of the revised instructions to each State member bank for its files.

"The Office of the Comptroller of the Currency is making substantially the same changes in its affiliate forms and instructions."

Approved unanimously, with the understanding that the letters would be mailed when the forms have been printed.



Secretary.