Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, December 15, 1952. The Board met in the Board Room at 11:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Evans
Mr. Vardaman
Mr. Robertson
Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Allen, Director, Division of Personnel Administration

There was a discussion of what actions might be taken with respect to the appointment of chairmen, deputy chairmen, and Class C directors of the Federal Reserve Banks of Atlanta and Kansas City but no conclusions were reached.

Chairman Martin referred to the discussion with Mr. Gidney, President of the Federal Reserve Bank of Cleveland, at the meeting of the Board on December 9, 1952, concerning the proposed appointment of Mr. Fulton as First Vice President of the Cleveland Bank. He stated that in all the circumstances he felt that the Board should approve the appointment of Mr. Fulton and at the same time approve the payment of salaries to Mr. Blair as Vice President in charge of the Cincinnati Branch and to Mr. Clouse as Vice President and Secretary.

Following a brief discussion, unanimous approval was given to a letter to Mr. Gidney reading as follows:
"The Board of Governors approves the appointment of Mr. Wilbur D. Fulton as First Vice President of the Federal Reserve Bank of Cleveland, effective January 1, 1953, for the unexpired portion of the five year term ending February 29, 1956, and the payment of salary to him at the rate of $18,000 per annum for the period January 1, 1953, through April 30, 1953, in accordance with the action taken by the Board of Directors as reported in your letter of October 10, 1952.

"The Board of Governors also approves the payment of salaries to Mr. Wilbur T. Blair as the Vice President in charge of the Cincinnati Branch and to Mr. Roger R. Clouse as Vice President and Secretary for the period January 1, 1953, through April 30, 1953, at the rates of $16,000 and $12,500 per annum, respectively, which are the rates fixed by the Board of Directors as indicated in your letter."

Reference was made to the discussion with Mr. Williams, President, and Mr. Hill, Vice President, of the Federal Reserve Bank of Philadelphia, at the meeting of the Board on December 9, 1952, regarding a possible application by Land Title Bank and Trust Company, of Philadelphia, Pennsylvania, for membership in the Federal Reserve System.

Chairman Martin suggested that further discussion of the matter be deferred until a meeting when Governor Mills was present.

There had been circulated to the available members of the Board prior to consideration at this meeting a draft of letter to Mr. Brainard, Chairman of the Federal Reserve Bank of Cleveland, reading as follows:

"The Board of Governors has considered the action taken by your Directors on November 13, 1952, to supplement the retirement allowance of First Vice President Fletcher by a contribution of $9,000."
"The Board has discussed the factors which were considered by your Directors in taking this action and has concluded that it would not feel justified in approving the proposed contribution.

"It should be clearly understood that the Board's action in no way reflects upon Mr. Fletcher personally or his performance during his long and faithful service to the Federal Reserve System."

The draft of letter was accompanied by a memorandum dated November 20, 1952, from the Division of Personnel Administration reviewing the circumstances involved.

Following a discussion, during which it was brought out that Mr. Fletcher's appointment as First Vice President was made with the understanding that he planned to retire upon attaining the age of 65 or December 31, 1952, the letter was approved unanimously.

Before this meeting there had been sent to the members of the Board copies of a draft of letter to Mr. Armistead, Vice President of the Federal Reserve Bank of Richmond, approving the designation of Thomas G. Davis as a special assistant examiner for the Richmond Bank. The draft, which had been revised following discussion at the meeting of the Board on November 25, 1952, read as follows:

"In accordance with the request contained in your letter of November 10, 1952, the Board approves the designation of Mr. Thomas G. Davis, as a special assistant examiner for the Federal Reserve Bank of Richmond.

"It is noted that Mr. Davis owns 232 shares of stock in the Peoples National Bank, Greenville, South Carolina, most of which he inherited from his father, and which if disposed of at this time would entail a substantial tax assessment. In view of the fact that Mr. Davis will have no official contact, as an examiner, with the national bank or its local competitors, you express the hope that the Board may feel justified in waiving the requirement that he dispose of the stock."
'The Board's letter of March 24, 1948, (S-1018, F.R.L.S. #9054) to which you refer, contemplates that officers of the Federal Reserve Banks and employees occupying responsible positions should not purchase any stock of a member bank and should dispose of any such stock that they might have or acquire as soon as practicable without undue hardship. The stated principle underlying the requirement is that it is important that officers and employees of a Federal Reserve Bank refrain from being placed in any position which might embarrass the Federal Reserve Bank in the conduct of any of its operations or result in any questions being raised as to the independence of their judgment or their disinterestedness in the discharge of their official responsibilities or their ability to perform satisfactorily all of the duties of their positions.

'The Board does not wish to impose undue hardship in requiring that Mr. Davis dispose of his stock in the national bank. Accordingly, the Board will not object to his continued holding of the stock if and for so long as the Reserve Bank is satisfied that the principles stated above will not be violated through his continued ownership of the stock.

'It should be borne in mind that an examiner is in a particularly vulnerable position with respect to questions regarding the independence of his judgment. Without implying that Mr. Davis' judgment would, in fact, be swayed by his ownership of stock in the national bank, it is suggested that, in order to avoid any questions being raised, care be exercised in his assignment to examine any State member bank which, by reason of location or otherwise, might be considered in competition with the national bank.'

Governor Vardaman said that in his opinion the restriction contained in the Board's letter of March 24, 1948, to the Federal Reserve Banks should be removed or modified, but that as long as the letter was outstanding he felt that no exception should be made to the stated policy and that in the instant case the individual in question should be required to dispose of his national bank stock if designated as special assistant examiner.
In response to a question by Governor Szymczak, Governor Robertson said that he understood exceptions to the general policy had been made in some cases on the basis of the facts involved in each particular case, that in this instance the Reserve Bank felt that the matter could be worked out satisfactorily, and that the individual in question would not examine the national bank in which he owned stock. He pointed out that the proposed letter to the Reserve Bank suggested that the Bank exercise care in assigning Mr. Davis to examinations of State member banks so that he would not participate in the examination of any bank which by reason of location or otherwise might be considered to be in competition with the national bank.

Thereupon, the letter to Mr. Armistead was approved, Governor Vardaman voting "no" for the reasons which he had stated.

Before this meeting there had been circulated to the available members of the Board a draft of letter to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

"The Board of Governors approves the payment of salary to Mr. Harold M. Wessel as an Assistant Vice President, Buffalo Branch, for the period January 1, 1953, through March 31, 1953, at the rate of $12,500 per annum, which is the rate fixed by the board of directors as indicated in your letter of November 26, 1952."

Governor Vardaman had requested that the matter be discussed at a meeting of the Board and he now raised the question whether Mr. Wessel
was being transferred to the Buffalo Branch with the intention that he
would succeed Mr. Smith as Vice President in charge of the branch.

Mr. Allen said that there was no indication of such an intention
on the part of the Reserve Bank and that the purpose of transferring Mr.
Wessel was represented to be a desire on the part of the Bank to raise
to full complement the official staff of the branch, particularly in view
of plans being made for a building program at the branch.

It was pointed out in this connection that Mr. Cameron was ap-
pointed as Acting Assistant Manager of the Buffalo Branch effective
January 1, 1951, but that because of illness he was transferred back to
the head office as Assistant Vice President in September of that year and
the position at the branch had not been filled since that time.

Thereupon, the letter to Mr.
Sproul was approved unanimously.

Reference was made to the discussion with the Chairmen of the
Federal Reserve Banks at the Chairmen's Conference in Chicago on December
14-15, pursuant to the understanding at the meeting of the Board on November
19, 1952, regarding the procedures followed in handling the Reserve
Bank budgets and the principles that should be kept in mind by the Reserve
Bank directors in approving expenditures. Question was raised as to what
type of letter should be sent to the Reserve Banks approving their 1953
Chairman Martin said that he felt it would be helpful to the Board in considering the matter to have a memorandum of the discussion at the Chairmen's Conference, and he suggested that Mr. Sherman send such a memorandum to each member of the Board.

It was also suggested that Mr. Sherman's memorandum be accompanied by alternative drafts of a letter which might be sent to the Reserve Banks.

It was agreed that this suggested procedure should be followed.

Reference was made to the budget of the Board for 1953, copies of which had been sent to the members of the Board, and it was understood that discussion would be deferred until a meeting when all of the members of the Board were present. Governor Vardaman stated in this connection that he would like to have a discussion in executive session of the construction of the budget and the general principles involved in its preparation preliminary to discussion of the budget with the staff.

Chairman Martin stated that pursuant to the authorization given him at the meeting on November 17, 1952, he had negotiated with Arthur Andersen and Company to make audits of the Board's accounts covering the last nine months of 1952 and the year 1953 and had reached an agreement
with the company to undertake the audits on the same cost basis as the audit which covered the first three months of 1952.

Regarding the proposal to have Arthur Andersen and Company accompany the Board’s examining staff on one Federal Reserve Bank examination each year for the purpose of reviewing the adequacy of the examining procedures and the conduct of the examinations, Chairman Martin stated that he had discussed the matter with representatives of the firm pursuant to the authorization given to him at the meeting on November 17 and that, while the firm had not yet advised what its charge would be for such an assignment, it was agreed that representatives of the firm would accompany the Board’s examiners on an examination at the earliest opportunity.

Governor Vardaman said it should be made clear that the audit firm was not to audit the accounts of the Reserve Bank since, if that were to be done, the auditors should be employed by the Reserve Bank rather than by the Board.

Chairman Martin said that that was made clear in his conversation with representatives of the auditing firm and that the company in fact would not accept the assignment on a basis which contemplated an audit of the Reserve Bank.

Governor Vardaman asked if it was understood that the auditing firm would report direct to the Chairman of the Board of Governors, and
Chairman Martin said that that was the understanding.

There was presented a memorandum dated December 12, 1952, from Mr. Sloan, Director of the Division of Examinations, recommending that the Board authorize the expenditure of such funds as might be necessary to defray the cost of a reception on December 17 and a luncheon on December 19, 1952, in connection with the second session of the Inter-Agency Bank Examination School, both affairs to be held in the staff dining room. The memorandum stated that it was hoped that the members of the Board, the Comptroller of the Currency, and the directors of the Federal Deposit Insurance Corporation, along with the senior personnel on the examining staffs of the three bank supervisory agencies, would attend the reception, while the luncheon was to be attended by the faculty and students of the school.

Approved unanimously.

Governor Evans discussed briefly building plans at the Federal Reserve Bank of Atlanta and the Birmingham Branch and stated that more detailed information would be presented to the Board for its consideration at a later date.

Chairman Martin commented on the situation in the Government securities market, basing his remarks on his observations while in New York last week.
Chairman Martin also said that Mr. W. Randolph Burgess, who was recently selected by President-elect Eisenhower for a post in the Treasury Department having to do with debt management policy, had discussed with Mr. Sproul, President of the Federal Reserve Bank of New York, the possibility of his being furnished an office in the Reserve Bank for use at such times as he might be in New York. He said that Mr. Burgess was severing his banking and other private business connections, that Mr. Sproul favored accommodating Mr. Burgess, and that he (Chairman Martin) saw no objection to the Reserve Bank complying with the request. The other members of the Board indicated that they saw no objection to such an arrangement.

At this point all of the members of the staff except Messrs. Carpenter, Sherman, and Kenyon withdrew and the following additional actions were taken by the Board.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on December 10, 1952, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on December 11 and 12, 1952, were approved and the actions recorded therein were ratified unanimously.

[Signature]
Secretary