Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, April 14, 1953. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Evans
Mr. Mills
Mr. Robertson

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Cherry, Legislative Counsel

Mr. Cherry presented a report on legislative developments of interest to the Board during which he said that the Senate Banking and Currency Committee had completed its work on a revised economic controls bill, that the report of the Committee was to be filed today, and that it was hoped to bring the bill up before the Senate later this week. He understood that the new bill would give the Board authority to exercise consumer credit controls in the same form as contained in the original Defense Production Act and would authorize the President to prescribe regulations with respect to real estate construction credit under provisions similar to those contained in the original Act.

Mr. Cherry also stated that hearings on proposed bank holding company legislation were scheduled to be held commencing in about two or three weeks before either the Senate Banking and Currency Committee or the Subcommittee on Federal Reserve Matters, and that according to present plans Government witnesses, including representatives of the Board, the Treasury, and the Federal Deposit Insurance Corporation, would be called first.

In the course of further comments, Mr. Cherry stated that the Senate Committee on Government Operations was to begin hearings today on Bill S. 106, introduced by Senator Ferguson, of Michigan, to establish a Commission on Organization of the Executive Branch of the Government, and Bill S. 1514, introduced by Senator Taft, of Ohio, to establish a Commission on Governmental Functions and Fiscal Resources, the latter bill being identical with Bill H. R. 4406, introduced by Representative Halleck, of Indiana, concerning which the Board had received a request for its views from the House Committee on Government Operations. In this connection Mr. Cherry referred to a memorandum which he sent to the members of the Board under date of April 7, 1953, in which he stated that he had inquired of a member of the staff of the House Committee whether there were any particular reasons for sending to the Board a request for a report on Bill H. R. 4406 and that he was informed that because of the Board's interest in fiscal and credit matters, the staff felt that the Committee might wish to have the Board's views concerning the desirability of setting up a commission to make the proposed study.

There was a discussion as to whether the Board should reply to the request from the House Committee during which it was brought out that the study contemplated by H. R. 4406 would be concerned principally with various aspects of Federal aid to State and local governments. Chairman Martin then suggested that no reply be made at this time, but that Mr. Cherry keep the Board informed of any developments which might make it advisable to reconsider the matter.

Chairman Martin's suggestion was approved unanimously.

Chairman Martin then stated that in accordance with a suggestion by Senator Capehart, Chairman of the Banking and Currency Committee, he and Mr. Cherry were to have a discussion this morning with Senator Bricker, Chairman of the Subcommittee on Federal Reserve Matters, regarding the introduction of a bill which would amend the ninth paragraph of section 10 of the Federal Reserve Act by increasing from $10 million to $30 million the limitation on the aggregate of "building proper" costs incurred by the Federal Reserve Banks for branch bank buildings subsequent to July 30, 1947.

The following requests for travel authorization were presented:

Name and Title	Duration of Travel
Robert F. Leonard, Director, Division of Bank Operations	April 15-21, 1953
C. David Persina, Consulting Architect to the Board	April 15-19, 1953

To travel to Chicago, Illinois, to consider with the management of the Federal Reserve Bank of Chicago, as suggested by the Board, the Bank's building program, and, in the case of Mr. Leonard, to proceed from Chicago to St. Louis, Missouri, to review with Mr. Johns, President of the Federal Reserve Bank of St. Louis, at his request, the program of alterations contemplated by the St. Louis Bank.

Approved unanimously.

There was presented a memorandum dated April 13, 1953, from Mr. Thomas, Economic Adviser to the Board, requesting that he be authorized to accept an invitation to attend the spring meeting of the Investment Bankers Association of America to be held at White Sulphur Springs, West Virginia, May 13-16, 1953.

Approved unanimously.

Mr. Cherry then withdrew from the meeting.

Reference was made to a memorandum dated April 13, 1953, from the Division of Bank Operations, recommending several changes in the form of the weekly condition statement of the Federal Reserve Banks, effective with the statement for April 15, 1953. Pursuant to recommendations contained in the report of the ad hoc subcommittee on the Government securities market, subsequently approved by the Federal Open Market Committee and, as to timing, by the executive committee of the Open Market Committee at its meeting on April 8, 1953, the memorandum proposed:

1. To break down the item "U. S. Government securities" now shown on page one of the release into two items: Government securities bought outright and Government securities held under repurchase agreement.

2. To add a new item on page one of the release to show average member bank borrowings at Federal Reserve Banks for the period.

3. To classify as to types of securities on pages two and three of the release only United States Government securities bought outright, those held under repurchase agreement to be listed in one total without distribution as to type.

With respect to another recommendation of the ad hoc subcommittee, that there be shown in the weekly condition statement the amount of special certificates of indebtedness held by the System, the memorandum stated that information concerning such holdings had been included in the text of the statement and that it was proposed, in addition, to give the amounts, when held, in the combined statement of condition.

The memorandum also recommended two other changes in the weekly statement, as follows:

1. That a footnote be added to the maturity distribution of loans and securities on page two to specify that securities held under repurchase agreement were classified as maturing within 15 days in accordance with the maximum maturity of the agreements.

2. That the amount of United States Government securities held by the Federal Reserve Banks for foreign account be shown as a memorandum item on page one of the statement.

In addition, the memorandum suggested changing the maturity distribution of Government securities in the weekly statement to one based on maturity date rather than the nearest call date, thus reverting to the practice followed prior to January 3, 1951, when the change to the call date was made with the understanding that the distribution could be changed back to the former basis if circumstances made the call date no longer so significant. This change, the memorandum indicated, undoubtedly should be discussed with the Treasury before being made. The memorandum also proposed that if and when this change was made, a similar change should be made in the statement of condition of weekly reporting banks in central reserve cities, which is the only place a maturity breakdown by call date is made inasmuch as other weekly reporting banks are not asked for any maturity breakdown and the distribution shown in call reports is on an actual maturity basis.

There were distributed copies of the weekly statement of condition with the proposed changes indicated and, at the request of the Board, Mr. Leonard commented on the changes.

With respect to the suggestion that the maturity distribution of Government securities be changed to one based on maturity date rather than nearest call date, Governor Mills raised for consideration the question whether this was the appropriate time for making such a change. He pointed out that member banks have fallen into the habit in publishing their annual reports of showing Government security holdings on the basis of the earliest call date, that the banking community is very sensitive at present as to reserve positions and portfolios, and that to the extent that banks felt under any compulsion to change their current reporting basis, the appearance would be created of a lengthening of the investment portfolio. Governor

Mills also felt that some persons might interpret the change as a definite declaration on the part of the System that there was to be a permanent change in the rate of interest and yields on Government securities. He indicated that he did not feel strongly concerning the proposed change but questioned whether enough would be gained to warrant making it.

In a discussion of the points raised by Governor Mills, it was brought out that call reports of the three Federal bank supervisory agencies require a breakdown by maturity dates for Government securities held by the reporting banks, and that in the weekly reporting member bank series no maturity breakdown is requested except from central reserve city banks; also that the classification of System holdings by nearest call date in the weekly condition statement seemed to have lost its significance because the Treasury was no longer regularly exercising its option to call securities. It was also suggested that this might be a desirable time to make the change since it would attract less attention by virtue of the several other revisions being made in the weekly statement.

With respect to the suggestion that the amount of Government securities held by the Federal Reserve Banks for foreign correspondents be set forth as a memorandum item on page one of the press statement, Governor Mills raised the question whether this might be considered to constitute a violation of confidence on the part of the Federal Reserve.

Mr. Thomas stated that weekly changes in such data have been given out regularly by an officer of the New York Reserve Bank at weekly press conferences in explaining money market developments, and that the amounts which it was proposed to present in the weekly statement were also incorporated in data published in the Federal Reserve Bulletin and the Treasury Bulletin showing international capital transactions of the United States. One tabulation, he pointed out, shows total holdings of United States Treasury bills and certificates for account of foreigners by Federal Reserve and commercial banks combined, while short-term holdings for foreign official accounts are also included in a total of official short-term balances which comprise both deposits and short-term securities held for such accounts by Federal Reserve and other banks. In addition, he said, purchases and sales of United States Government bonds and notes for all foreign accounts, official and unofficial, and transacted through Federal Reserve Banks and other correspondents, are shown in another tabulation.

Mr. Thomas stated that the principal reason for proposing to publish the weekly figures of holdings by the Federal Reserve Banks was that they, together with regularly published weekly figures of foreign deposits at Federal Reserve Banks and at weekly reporting member banks, would make information available more promptly on some of the more important elements in the picture of total international capital transactions.

Mr. Leonard remarked that the idea of publishing the data on

Government securities held for foreign account originated with the Research Department of the Federal Reserve Bank of New York, that it was understood to have been cleared with other departments of the Bank, and that publication of the data was supported by the Staff Group on Foreign Interests and the Board's Division of International Finance.

Following further discussion, the recommendations contained in the memorandum from the Division of Bank Operations were approved unanimously except that it was agreed that the data on Government securities held for foreign account should be shown as a footnote on page one of the weekly condition statement rather than as a paragraph in the text of page one of the release. In taking the above action, it was understood that Mr. Leonard would check by telephone with Mr. Bartelt, Fiscal Assistant Secretary of the Treasury, to ascertain that the Treasury would have no objection to changing the maturity distribution of Government securities so as to base it on maturity date rather than nearest call date.

Chairman Martin referred to the preliminary discussion at the meeting on February 9, 1953, with respect to what might be done by the Board in the way of providing facilities for bankers, particularly directors of Federal Reserve Banks and branches, during the convention of the American Bankers Association to be held in Washington September 20-23, 1953, and suggested that the matter be referred to Governor Evans for consideration of the plans to be made.

This suggestion was approved unanimously.

Mr. Carpenter recalled that following a prolonged study, the Presidents' Conference at its last meeting accepted unanimously a recommendation of the Committee on Miscellaneous Operations that the Loss Sharing Agreement of the Federal Reserve Banks be amended to include fire and allied risks under a plan providing for the establishment of additional specific reserves aggregating $6 million against such risks, that the Board indicated its approval of the proposed amendment to the Loss Sharing Agreement at the joint meeting with the Presidents on March 5, 1953, and that the Board subsequently sent a letter to the Presidents of all Federal Reserve Banks under date of April 3, 1953, enclosing copies of the amended agreement to be executed by the respective Presidents. Yesterday, he said, President Gilbert, of the Federal Reserve Bank of Dallas, called him on the telephone to state that although the directors of that Bank had originally approved the principle of self-insurance against fire and allied risks, there subsequently had been several changes in the board of directors, that several of the directors had received letters from insurance companies protesting the proposed change, and that a majority of the directors present at last week's meeting voted not to accept the amendment to the Loss Sharing Agreement. He said that President Gilbert was planning to bring the matter up again at the next meeting of the directors (when it was expected that Chairman Parten would be present) on the basis of a complete statement of the facts, with the thought that the directors might reconsider their position and accept the amendment. Mr. Carpenter said that this matter was being called to the Board's attention solely as a matter of information, there being nothing for the Board to do at this time.

Chairman Martin stated in this connection that he had agreed to meet with a delegation of insurance company officials who had expressed a desire to discuss with him the proposed amendment of the Loss Sharing Agreement.

At this point all of the members of the staff except Messrs. Carpenter and Vest withdrew from the meeting.

Governor Robertson referred to the issuance by the Board on March 27, 1953, of a complaint and notice of hearing under section 9 of the Federal Reserve Act against Devon-North Town State Bank, Chicago, Illinois, and reported that the banking authorities of the State of Illinois had now assumed control of the bank, this action having been taken in the hope that it would be possible to effect the necessary changes in the management of the institution to correct the conditions which prompted the Board to institute the proceeding to expel the bank from membership in the System. He said that if the attempt to effect a change in the management of the bank was not successful, it was the hope of the State authorities to bring about the sale of the bank to other interests, and that if either of these events could be brought about, the State authorities would relinquish control of the bank. Governor Robertson said that in the circumstances the proceeding instituted by the Board to expel the bank from membership and the proceeding begun by the Federal Reserve Bank of Chicago, with the approval of the Board, to cite the president of the bank under section 30 of the Banking Act of 1933 would be held in abeyance pending the outcome of the action taken by the State authorities.

Chairman Martin reported receipt of a letter dated March 9, 1953, from Mr. Maurice Frere, Chairman of the Board of Directors of the Bank for International Settlements, inviting Chairman Martin or another member of the Board to attend the annual general meeting of the Bank in Basle, Switzerland, on June 8, 1953.

It was agreed unanimously that Chairman Martin should reply to Mr. Frere that no member of the Board would be able to attend the meeting this year.

The meeting then adjourned. During the day the following additional actions were taken by the Board, with all of the members except Governor Vardaman present:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 13, 1953, were approved unanimously.

Letter to Mr. Clarke, Secretary, Federal Reserve Bank of New York, reading as follows:

"Thank you for your letter of April 2, 1953, advising that, in addition to the leave without pay granted Mr. Philip J. Glaessner to June 3, it now appears that additional time will be required to permit him to complete his assignment as Economic Officer on the permanent Brazil-United States Commission for Economic Development and that, at the personal request of Ambassador Bohan, Chairman of the Joint Brazil-United States Economic Development Commission, Mr. Glaessner's leave has been extended to June 30, 1953, plus such period as he may request to utilize accumulated State Department leave and to return to the United States.

"In view of the circumstances, the Board of Governors interposes no objection to the arrangement with respect to Mr. Glaessner as described in your letter."

Approved unanimously.

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

"You will recall that, during the meeting of the Conference of Presidents last September, it was mentioned that the Board had in mind arranging to have new members of its field staff of examiners observe operations at a Federal Reserve Bank for a period so that they might be better prepared to perform their duties with the examining staff. During the recent examination of your Bank by the Board's examiners, Chief Federal Reserve Examiner Lang made tentative arrangements with you and General Auditor Brock regarding the sending of two, or possibly three, of our new men to Richmond for indoctrination. The purpose of this letter is to formalize and confirm the tentative arrangements.

"It is our plan to send these new men to your Bank to work in the Auditing Department for a period of about three months, having in mind that the work of the Auditing Department will give them an insight into the activities of various operating departments within a comparatively short time. Details as to the dates on which the men will report in Richmond are being worked out with Mr. Brock by the Board's Division of Examinations.

"The men, although working at the Federal Reserve Bank of Richmond, will nevertheless be employees of the Board, and the

"Board will pay their salaries and all related expenses, together with their per diem in lieu of subsistence and travel expenses, including the expenses of their travel performed in connection with audits at the branches of your Bank. It should be distinctly understood, however, that Mr. Brock is at liberty to make use of their services in the same manner as if they were employees of the Reserve Bank.

"If these arrangements are in any way not satisfactory to you, we shall be glad to make whatever adjustments are necessary.

"We greatly appreciate the cooperative attitude of yourself and Mr. Brock in this matter, and we are sure that the program will be of great benefit to us in building up the quality of performance of the new members of our field staff."

Approved unanimously, together with a similar letter to Mr. Bryan, President of the Federal Reserve Bank of Atlanta.

Memorandum dated April 8, 1953, from Mr. Marget, Director, Division of International Finance, stating that Beatrice Bulla, Economist in that Division, has submitted her application for retirement under the Board Plan of the Federal Reserve Retirement System, effective April 30, 1953.

Noted.

Secretary