

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, June 9, 1953. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman

Mr. Evans

Mr. Vardaman

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. Sloan, Director, Division of Examinations

Mr. Myrick, Assistant Director, Division of Bank Operations

Mr. Youngdahl, Assistant Director, Division of Research and Statistics

Mr. Leach, Chief, Government Finance Section, Division of Research and Statistics

At the request of Chairman Martin, Mr. Leonard reviewed developments related to the request of the Treasury Department that the Federal Reserve Banks undertake the verification and destruction of unfit silver certificates and United States notes beginning July 1, 1953, as fiscal agents of, and in accordance with regulations to be issued by, the Treasury Department. The substance of Mr. Leonard's remarks was included in his memorandum to Chairman Martin dated June 8,

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1953, a copy of which has been placed in the Board's files.

Mr. Leonard also said that the Presidents' Conference Subcommittee on Cash, Leased Wire, and Sundry Operations, which met in Washington June 3-5 and consulted with representatives of the Treasury Department, had submitted a report to the Presidents' Conference which he understood was considered at the meeting of the Conference yesterday morning. He went on to say that he understood there was some difference of opinion among the Presidents on the question of the basis of reimbursement although there was general agreement that the Reserve Banks would have to undertake the function.

Governor Vardaman referred to Governor Robertson's suggestion at the meeting of the Board on June 2 that it might be possible to work out some feasible method whereby the function would be performed under the supervision of representatives of the Treasury Department, and Mr. Leonard commented that this was discussed briefly during the meeting of the Subcommittee last week, as was the suggestion of Governor Vardaman that the facilities of the Reserve Banks be placed at the disposal of the Treasury, whose representatives would assume responsibility for the verification and destruction of the currency. Mr. Leonard said that the Treasury Department representatives who met with the Subcommittee displayed no interest in these suggestions and

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that he was informed later by Mr. Laning that earlier in its discussions the Subcommittee had considered those possibilities but did not favor them.

Governor Robertson inquired as to what safeguards were intended to be placed on the operation by the Federal Reserve Banks, and Mr. Leonard discussed the procedures which the Reserve Banks contemplated putting into effect, including audits at least once each quarter by the respective Reserve Bank auditors, reports of which would be furnished to the Treasury.

Governor Vardaman expressed the opinion that the General Accounting Office might not accept the certificates of verification and destruction furnished by the Reserve Banks under the contemplated procedure without periodic audits of the verification and destruction operations.

Governor Robertson reviewed the procedures which had been followed in the past in the verification and destruction of Treasury currency and Federal Reserve notes and said that he continued to feel that it would be preferable if an arrangement could be worked out whereby members of the Secret Service would make at least periodic checks of the operations at the Reserve Banks concerning the verification and destruction of Treasury currency. If the Treasury would not agree to this procedure, Governor Robertson said, he would suggest

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Governor Mills made a statement to the effect that with the more numerous audits by the Board's examining staff which were suggested by Governor Robertson and the safeguards which would be placed on the operations by the Reserve Banks themselves, the risk exposure of the Banks would not be much greater than that involved in certain of their other operations as fiscal agents. In the circumstances he felt that it would not be objectionable for the Reserve Banks to accept the risk and undertake to perform the operations.

Governor Evans stated that he agreed with the position taken by Governor Mills.

Following a further discussion, it was understood that the whole matter, particularly the safeguards which might be provided in connection with the performance of the function, would be discussed at the joint meeting of the Board with the Reserve Bank Presidents on June 11, 1953.

The Secretary referred to the suggestion by Governor Vardaman at the meeting on April 27, 1953, that a letter be sent to the Federal Reserve Banks on the matter of their leasing space in Federal Reserve Buildings to outside tenants and read a draft of letter to the Presidents of all Federal Reserve Banks which had been prepared pursuant to that suggestion.

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Following a discussion, it was agreed that the matter should be discussed at the next joint meeting of the Board with the Reserve Bank Presidents, with the understanding that in the absence of suggestions by the Presidents which would make a revision of the letter desirable, it would be sent to the Reserve Banks.

At this point Messrs. Leonard and Myrick withdrew from the meeting.

Governor Mills referred to the comprehensive reexamination of the System's discount and discount rate mechanism which had been initiated pursuant to the Board's action on April 2, 1953, and to the studies which were sent to the Reserve Banks on May 29, 1953, as the basis for further discussions of System discount operations. He suggested that the study, which might result in a rewriting of Regulation A, Discounts For and Advances To Member Banks by Federal Reserve Banks, and a revision of the Reserve Banks' discount practices, be carried forward through the creation of a special committee consisting of a Chairman of a Federal Reserve Bank, a President, and a member of the Board, with Mr. Young, Director of the Division of Research and Statistics, continuing to direct the research studies. Governor Mills proposed that, if approved by the Board, this procedure be suggested to the Reserve Bank Presidents at the forthcoming joint meeting

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of the Board with the Presidents.

There was unanimous agreement with the procedure suggested by Governor Mills, with the understanding that the Presidents would be asked to select one President to serve on the special committee, that the Chairmen of the Reserve Banks would be asked to select one Chairman to serve on the committee, and that Governor Mills would represent the Board on the committee and serve as Chairman.

Messrs. Sloan and Youngdahl then withdrew from the meeting.

There was a general informal discussion of recent developments in the money market, following which all of the members of the staff withdrew from the meeting and the Board went into executive session.

During the executive session, Governor Vardaman reported a telephone call from Senator Eastland of Mississippi regarding a letter which the Senator had received from a constituent banker concerning certain operations of the Memphis Branch of the Federal Reserve Bank of St. Louis.

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

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Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 8, 1953, were approved unanimously.

Memorandum dated June 8, 1953, from Mr. Marget, Director, Division of International Finance, recommending that the resignation of Myrtle B. Caldwell, Clerk-Stenographer in that Division, be accepted effective June 3, 1953.

Approved unanimously.

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

"Reference is made to your letter of May 29, 1953.

"The Board approves the payment by your Bank of whatever amount is required to cover the cost of the benefits provided Messrs. Flagg and March under the special Bank Plan coverage allowed by the application of Section 9 of the Rules and Regulations.

"It is understood that this payment by your Bank to the Retirement System will be deferred until the death in active service or retirement of each of these men."

Approved unanimously.

Letter to Mr. Coleman, Federal Reserve Agent, Federal Reserve Bank of Chicago, reading as follows:

"In accordance with the request contained in Mr. Meyer's letter of June 4, 1953, the Board of Governors approves the payment of salary to Mr. Carl Schelling, Assistant Federal Reserve Agent, at the rate of \$7,725 per annum, effective July 13, 1953."

Approved unanimously.

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

"In your letter of April 29, 1953, you request a ruling on whether the President of the Board of Trustees of the village of Dixmoor, Illinois, is an office which properly could be held by an employee of the Federal Reserve Bank of Chicago.

"It is stated in your letter that the election of the President of the Board of Trustees has nothing to do with national politics, but it is our understanding that the village trustees are elected at a general election following a primary conducted on the basis of political party affiliation. The Board of Governors' policy has consistently been interpreted to apply to the holding of political office not only at the national level but also at State and local levels.

"The President of the Board of Trustees of the village of Dixmoor, Illinois, has many of the same characteristics politically as a Mayor of a city. Because of this, and the fact that the office is filled through both a primary and general election, it appears that the office would be one which an officer or employee of a Federal Reserve Bank should not hold."

Approved unanimously.

Telegram to Mr. Hall, Chairman and Federal Reserve Agent, Federal Reserve Bank of Kansas City, reading as follows:

"Retel 5th. Board approves appointment of William N. Deramus as Member of Industrial Advisory Committee for remaining portion of term beginning March 1, 1953, in accordance with action of Board of Directors."

Approved unanimously.

Letter to Mr. Gilbert, President, Federal Reserve Bank of Dallas, reading as follows:

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"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 Conference of Auditors of the Federal Reserve Banks, Chief Federal Reserve Examiner Lang made tentative arrangements with General Auditor Murff regarding the sending of two of our new men to Dallas for indoctrination, and it is understood that Mr. Murff has cleared the matter informally with you. 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 Dallas are being worked out with Mr. Murff by the Board's Division of Examinations.

"The men, although working at the Federal Reserve Bank of Dallas, 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. Murff is at liberty to make use of their services in the same manner as if they were employees of the Reserve Bank. It is, of course, understood also that these men while in your bank will conduct themselves in accordance with the rules, regulations, and customs of your bank and of the department in which they are working.

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

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"We greatly appreciate the cooperative attitude of yourself and Mr. Murff 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.

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

"Reference is made to Vice President Millard's letters of May 21 and 27, 1953, submitting the application of The Southwest Bank, Inglewood, California, for membership in the Federal Reserve System.

"The Board of Governors is required under the provisions of Section 4(b) of the Federal Deposit Insurance Act to consider certain factors in determining the acceptability for membership of a noninsured State bank, and in this case it is not believed that all of such factors are satisfactorily resolved. While the information submitted indicates that Inglewood can support an independent banking unit, there may be some question as to whether the community actually needs additional banking services and whether the proposed bank's earnings would be satisfactory since it would be located in a section of the city now served by branches of larger banks. Of primary concern is the apparent lack of arrangements for satisfactory management and the general consensus that the proposed management would be weak. This situation is all the more important since the bank will be operating in a highly competitive area.

"In the circumstances, the Board does not feel that favorable consideration could be given to the bank's application for membership at this time, and it is requested that you suggest to the bank that its

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"application for membership be withdrawn. When the management has demonstrated its ability to operate the institution satisfactorily or other management of known competence is provided, the Board will be glad to consider an application for membership in the Federal Reserve System."

Approved, Governor Vardaman
voting "no".

Letter for the signature of the Chairman to The Honorable,
The Secretary of State, reading as follows:

"This will acknowledge your communication of May 6 regarding the invitation extended by the Government of Italy to the United States Government to participate in the 28th Session of the International Statistical Institute which is scheduled to be held at Rome during the period September 6-12, 1953.

"The Board of Governors generally believes that participation by the United States in international meetings for the purpose of furthering the interchange of technical information is desirable, but is not in a position to evaluate the relative importance of the various invitations to this end that your Department may be called upon to consider. In this instance, if it is decided to send a delegation and the agenda for the meeting should include the topics listed in the preliminary program, a copy of which was enclosed with your communication of May 6, we would suggest including in the delegation a member of the staff of the Board familiar with the measurement of industrial production in the United States. This is an area of statistical work for which the Board has had primary responsibility since the early 1920's."

Approved unanimously.

Statement for publication in the Federal Register relating
to Amendment No. 12 to Regulation U, Loans by Banks for the Purpose

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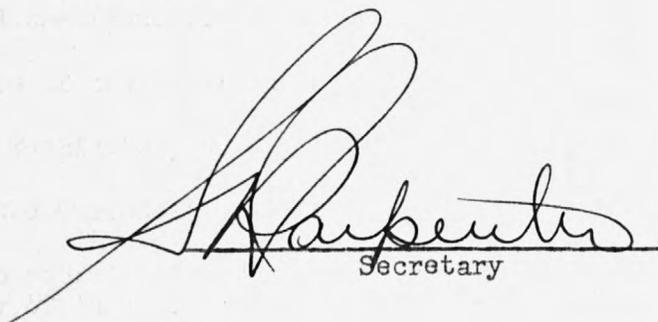
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of Purchasing or Carrying Stocks Registered on a National Securities Exchange, prepared pursuant to action taken by the Board on May 28, 1953, and reading as follows:

"2. a. This amendment is issued pursuant to the Securities Exchange Act of 1934, particularly section 7 thereof. Its purpose is to make clear that Part 221 applies to loans for the purpose of purchasing or carrying certain shares issued by open-end investment companies whose assets customarily include registered stocks. The shares affected give the purchaser a proportionate interest in the issuing company's assets, and carry the right to convert his interest into the company's underlying assets or their cash equivalent. Such shares are technically called 'redeemable securities'. (The amendment does not affect Part 220.) A list of the 'redeemable securities' subject to the amendment will be available at any Federal Reserve Bank or Branch prior to the effective date of the amendment.

"b. In the formulation and adoption of this amendment the Board gave consideration to all relevant information, including the data, views, and arguments received from interested persons pursuant to the notice of proposed amendment published in the Federal Register (18 F.R. 1172)."

Approved unanimously.



Secretary