A joint meeting of the Board of Governors of the Federal Reserve System and the Presidents of the Federal Reserve Banks was held at the Board's offices in Washington, D. C., on Thursday, September 24, 1953, at 2:00 p.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary

Messrs. Erickson, Sproul, Williams, Fulton, Leach, Bryan, Young, Johns, Powell, Leedy, and Earhart, Presidents of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and San Francisco, respectively

Mr. Gentry, First Vice President of the Federal Reserve Bank of Dallas

Mr. Heflin, Secretary of the Conference of Presidents of the Federal Reserve Banks

The date for the next meeting of the Presidents' Conference was set for December 14, 1953, with the understanding that a joint meeting of the Presidents and the Board of Governors would be held following a meeting of the Federal Open Market Committee on December 15, 1953.

Before this meeting there had been submitted to the Board a memorandum listing the topics to be discussed at this joint meeting. The topics, the statement of the Presidents' Conference with respect to each, and the discussion concerning them at this meeting were as follows:

1. Classification of member banks for purposes of electing Class A and Class B directors. The Presidents discussed the Board's letter of August 7, 1953, concerning the classification of member banks for purposes of electing Class A and Class B directors. It was the consensus of the Conference that the formula suggested by the Board in 1934 and used since that time as a guide in considering reclassifications is generally workable and, if interpreted flexibly with regard for variations in the several Federal Reserve districts, will continue to provide a satisfactory base for classifying member banks for electoral purposes.

Chairman Leach stated that the Presidents' Conference knew of no better plan for the classification of member banks for purposes of electing Class A and Class B directors than the formula now in use, that it appeared that the present formula had worked fairly well in the past, and that if it were liberally applied, the Presidents believed that it could work satisfactorily in the future.

Governor Robertson stated that the matter had been given careful consideration by the Board, that no better formula had been developed up to this time, but that this did not necessarily mean that one could not be developed upon further study. He noted that it was understood that each Federal Reserve Bank would make a review after the end of the current year and submit to the Board any suggestions that the Bank might have for changes in the classification of member banks.

2. <u>Report of the Special Committee on Budgetary Control of Expenses of Federal Reserve Banks</u>. The Presidents discussed the report of the Special Committee on Budgetary Control of Expenses of the Federal Reserve Banks and accepted it as a stimulating and useful guide to the individual members of the Conference in carrying out their duties in administering the affairs of their respective Federal Reserve Banks.

In accordance with recommendations contained in the report the Conference requested the Committee on Collections and Accounting to review the accounting procedures with respect to personnel, research, and bank and public relations, and requested the Committee on Research and Statistics to give consideration to the preparation of a statement of objectives for the research activities of the Federal Reserve Banks.

Chairman Leach stated that in accordance with the recommendation of the Coleman Committee on Budgetary Control of Expenses, the Committee on Collections and Accounting would take the necessary steps to create one or more special committees consisting of appropriate Board and Reserve Bank personnel, including individuals with personnel, research, and public relations background, to review the accounting procedures with respect to personnel, research, and bank and public relations. He also stated that, after the report of the Coleman Committee had been approved, the Committee on Research and Statistics would undertake, working closely with Governor Mills, to draw up a statement of objectives for the research activities of the Federal Reserve Banks.

Governor Mills commented that the study of research activities was very much a joint Board-Reserve Bank project and that the Board would look forward to working out the proper kind of statement with the Reserve Banks.

Chairman Leach stated that, after considering the establishment of a committee of experts familiar with machine operations, the Presidents' Conference requested the Committee on Miscellaneous Operations to review its present subcommittees and their assignments with the thought that there should be no overlapping of assignments. He said that this did not indicate any disagreement with the recommendations as to machine operations contained in the report of the Coleman Committee.

3. Proposal for study of budgetary procedure. The Conference assigned to its Committee on Collections and Accounting for study and report the several matters raised in the Board's letter to President Leach of August 5, 1953, regarding expense reporting and budgetary procedures.

The statement of the Presidents' Conference was noted and there was no further discussion of this topic.

4. Experience of the Federal Reserve Banks with the verification and destruction of United States currency. This operation is still in the experimental stage at most of the Federal Reserve Banks. No particular problems have been encountered except that the Banks which have experimented with destruction of currency by shredding report unsatisfactory results. All Reserve Banks that are not now destroying currency by incineration plan to do so as soon as equipment is available. It was agreed that the several Reserve Banks would exchange ideas, plans, and techniques regarding currency destruction in an effort to perfect the operation as quickly as possible.

Chairman Leach said that the Presidents were agreed on the importance of destroying all currency thoroughly, but that the Reserve Banks had not accumulated enough experience with the verification and destruction functions to indicate whether there would be any serious problems in connection with these operations. He noted that the operations perhaps were costing more at present than they would at a later time.

Chairman Martin said that the Board would await with much interest any comments which the Presidents might care to make after the exchange of ideas among the Reserve Banks had been completed since it had a definite interest in this whole matter, particularly from the public relations standpoint.

Chairman Leach said that the public relations factor was recognized by the Presidents, especially because of the incidents which occurred as a result of the situation at the Pittsburgh Branch where certain pieces of currency escaped to the city dump without having been completely incinerated.

Following a discussion of this aspect of the matter, Chairman Martin stated that the Board had considered the desirability of cutting the bills in half before they are destroyed even though this procedure is not required under the regulations of the Treasury Department, and that the Board would like to have the views of the Presidents on this point.

Following a statement by President Bryan that the Atlanta Bank had been following the practice of cutting the bills in half, President Earhart said that this point was discussed with representatives of the

Treasury Department at the time the Subcommittee on Cash, Fiscal Agency, and Sundry Operations was working on the problem earlier this year, that the Treasury Department had experienced difficulty in verifying unfit halves, that certain machinery which was intended to verify the currency automatically had been tested by the Treasury but was found not to be entirely satisfactory, and that this difficulty in verification was one of the reasons why the Treasury felt that if the verification and destruction functions were turned over to the Federal Reserve Banks, savings could be effected by virtue of the fact that the incineration of the currency on the premises of the Reserve Banks would seem to render the cutting of the bills unnecessary.

Governor Robertson expressed the view that the verification and destruction of currency was a very important operation and that one or two mishaps could seriously injure the System. In the circumstances, he felt that the procedures should be more than adequate, that although it might at first seem foolish to cut in half bills destroyed on the Bank premises, he thought that it was not, and that to do so would have a valuable psychological effect. It was his personal belief that the Reserve Banks should not permit any person to destroy currency until after the bills had been cut in half and that the procedure should involve incinerating the two halves at different times. It was his suggestion that the Presidents consider such a procedure carefully as one means of assuring that the procedures followed were just as fool-proof as possible.

With respect to a comment concerning difficulties in verifying currency which has been cut in half, Governor Robertson commented that in the past bills had been cut before they were sent to the Treasury Department in Washington for verification and destruction and he expressed the opinion that the extra cost involved would be greatly outweighed by the advantages to be gained from cutting the bills. In further comments, Governor Robertson said that the bills might not have to be cut prior to verification but that he felt that no person at the Reserve Bank who received currency for final destruction should receive whole bills.

Chairman Leach said that the Presidents appreciated the Board's suggestions and that they recognized fully the importance of performing the task of verification and destruction in an entirely satisfactory manner.

5. Reimbursement to the Federal Reserve Banks for expenses of fiscal agency operations. The Conference considered the Board's letter of September 9, 1953, concerning the question of reimbursement to the Federal Reserve Banks for expenses of fiscal agency operations. The Presidents are opposed to performing such operations without reimbursement but would be glad to discuss with the Board any phases of the matter which they may have in mind.

Chairman Leach stated that the unanimous opposition of the Presidents to having the Reserve Banks perform fiscal agency operations without reimbursement was attributable to such things as the feeling that (1) the absorbing of these costs by the Reserve Banks might provoke criticism that the Treasury Department and other Government agencies were circumventing the regular appropriations procedures, and (2) the practice might lead to repeated requests by Government agencies for the Federal Reserve Banks to perform additional fiscal agency services. He said that the Presidents did not go into more specific objections pending a discussion with the Board and development of what the Board might have had in mind in raising the matter for consideration. He also said it was understood that the matter had not been raised because of any inquiry from outside the System.

Chairman Martin said that the Board had suggested a discussion with the Presidents, not because of any outside inquiry, but because the problem of requests for the Reserve Banks to take on additional operations was one with which the System would be faced for a long time and it seemed advisable to have as full an understanding as possible. He noted the apparently increasing tendency for various agencies of the Government to propose operations which the Reserve Banks might perform for them, some of which involved more than fiscal agency activities. While he recognized that the performance of fiscal agency operations without reimbursement might lead to the criticism that Chairman Leach had suggested, he noted that if the operations were on a reimbursable basis, this might also lead to the question whether the charges made by the Reserve Banks were proper in relation to the services performed.

President Earhart commented on the services rendered by the Reserve Banks for the Treasury Department without reimbursement and the services performed for that Department and other Government agencies on a reimbursable basis. He recognized that there was a "twilight zone" where questions could arise as to whether reimbursement should be required, but he said that these problems seemed to have been fairly well cleared up over the years. President Earhart pointed out that when there is a request that services be performed by the Reserve Banks for various Government agencies, the arrangements are covered by contracts stating the basis for reimbursement. He felt that these contracts were drawn up clearly enough that no particular problems would be presented.

Chairman Martin said that when any proposals were made to the Federal Reserve Banks regarding new fiscal agency operations, it would be helpful if the Board could be informed promptly so that the matter could be dealt with on a System basis. He said that such proposals were made to him frequently and that he had been taking the position that the Federal Reserve System, as a central banking organization, should not have its primary responsibilities in that field complicated by its getting into the lending business or other activities not directly related to central banking.

There was a discussion at the instance of Governor Mills as to what procedure had been set up by the Reserve Banks to advise the Board of proposals coming to their attention, and reference was made to the Committee on Fiscal Agency Operations and its subcommittees as well as to the periodic fiscal agency conferences which are attended by representatives of the Board, the Reserve Banks and the Treasury Department.

President Bryan inquired whether it was in effect the view of the Board that the Reserve Banks should be extremely careful as a matter of policy about accepting functions which were not related to central banking, to which Chairman Martin responded that in his opinion such functions as were assumed should be strictly fiscal agency functions. He repeated that anything of this nature should be considered on a System basis rather than by individual Reserve Banks.

Governor Robertson mentioned as an example that the Department of the Air Force recently had inquired whether the Federal Reserve Banks would be willing to make investigations of the financial responsibility of its prospective prime contractors, a service which, of course, would not be a fiscal agency operation. Reference also was made to the provision in the Small Business Act of 1953 that the Federal Reserve Banks may be directed to act as fiscal agents of the Small Business Administration and to the possibility that the Reserve Banks would be requested to act as fiscal agents with regard to loans made under the authority of section 302 of the Defense Production Act of 1950, as amended.

Chairman Leach stated that the Presidents agreed with the views expressed and that they would bear the discussion in mind.

President Williams remarked in this connection that the Federal Reserve Banks are almost constantly under pressure from member banks to provide additional free services. Later in the meeting Governor Mills referred to this comment by President Williams and stated that after approaching the Reserve Banks, groups of member bankers frequently approached the Board with requests that the Reserve Banks expand their free services. He referred particularly to inquiries by reserve city banks as to whether the free delivery of currency and free wrapping of coin could be extended and a recent inquiry as to whether reserve city banks could be offered the same safekeeping facilities as are available to country banks.

In a discussion of this matter it was suggested that the pressure was mostly from smaller banks, that this pressure had become greater in recent years because of the earnings of the Reserve Banks, and that it was important that member banks understand that the Reserve Banks would not provide additional free services until they had had an opportunity to consider the problem thoroughly.

Presidents Williams and Bryan pointed out that some of the services requested, such as sending unwrapped coin to the Federal Reserve Banks for wrapping and return, would definitely not be justified if decisions were made solely on the basis of the most economic use of available resources.

6. Shipment of new Federal Reserve notes from Washington to Federal Reserve Bank of New York. The Presidents considered the September 4, 1953, report of the Subcommittee on Cash, Leased Wire, and Sundry Operations regarding the shipment of new Federal Reserve notes from Washington to the Federal Reserve Bank of New York by armored car and airplane. The Conference has no objection to the conduct of a pilot or experimental operation by the Federal Reserve Bank of New York in this field and will defer further reference of the proposal to a committee or subcommittee pending determination of the Board's desires.

Chairman Leach stated that probably not all of the Reserve Banks would want to enter into an arrangement such as that proposed by the Federal Reserve Bank of New York, but that the Presidents saw no objection to instituting the arrangement on an experimental basis.

Chairman Martin said that the Board proposed to establish a System committee, with Governor Robertson as Chairman, to make a broad study of various questions in connection with the currency system of the United States, that the committee would include in its assignment a study of the New York Bank's proposal, and that the study would proceed as rapidly as possible.

7. Amendment of the Loss Sharing Agreement of the Federal Reserve Banks to include coverage of fire and allied risks. The Conference gave further consideration to the question of self insuring fire and allied risks in the light of the unwillingness of the Federal Reserve Bank of Dallas to have such coverage included in the Loss Sharing Agreement. After discussion of

several approaches to the problem, it was agreed that each President would as soon as practicable advise the Chairman of the Insurance Committee of the Federal Reserve Banks whether his Bank would be interested in a separate self insuring agreement covering fire and allied risks in which less than twelve Banks would participate.

Chairman Leach inquired whether the Board would see any objection to the procedure outlined in the above statement and Chairman Martin responded that the Board would have no objection.

8. Pending or proposed legislation of interest to the System. The Presidents wish to inquire whether there is any legislation of System interest pending in the Congress or any legislation being considered by the Board with respect to which the Conference might be of assistance.

Chairman Martin stated that the Board did not have a legislative program to present at this time, that a number of items had been discussed in the past, and that it was not possible to say now what the situation might be when the Presidents met in December.

Thereupon the meeting adjourned.

S. R. Carpenter
Secretary