Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, September 25, 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. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Hackley, Assistant General Counsel

Chairman Martin referred to the brief discussion at the meeting on September 10, 1953, concerning the request by Mr. W. A. Clarke, President-elect of the Mortgage Bankers Association and a former consultant to the Board on real estate credit matters, that the Board's staff make a visual-auditory economic presentation during the forthcoming convention of the Mortgage Bankers Association. Chairman Martin said that the convention was to be held in the Sixth Federal Reserve District, that President Bryan, of the Federal Reserve Bank of Atlanta, had agreed to address the convention, and that it was his (Chairman Martin's) view that it would be unwise to set such a precedent because if it were done for one organization the Board might receive calls from numerous other groups for the same service.

The other members of the Board present indicated that their views were similar to those expressed by Chairman Martin.

Governor Robertson stated that he had met yesterday with the other members of the special System committee on consumer credit (Presidents Sproul and Johns, of the Federal Reserve Banks of New York and St. Louis, respectively); that in the course of the conversation he mentioned the invitation which was extended to the Advisory Board to the Instalment Credit Commission of the American Bankers Association, pursuant to action taken by the Board on September 10, 1953, to meet with the Board for luncheon and a discussion of instalment lending on November 9, 1953; and that he extended an invitation to Messrs. Sproul and Johns to join the Board and the advisory group for the luncheon and discussion if it should be convenient for them to be in Washington on that day.

Chairman Martin referred to a memorandum which he had received under date of September 16, 1953, from Mr. Marion B. Folsom, Under Secretary of the Treasury, in which Mr. Folsom stated that a reduction in the rate of capital gains taxation was among the proposals being considered in connection with the plans for recommended revision in the tax laws and requested Chairman Martin's opinion and that of the Board of Governors as to both the long-term and the immediate consequences of such a rate reduction. The memorandum asked specifically for an appraisal of the effects of a lower rate of tax over a period of years in permitting greater fluidity of investment funds. It also requested views as to whether there might be any immediate adverse effects on security markets or otherwise arising from extensive liquidation of assets which until now have been frozen by the existing rate of tax on capital gains. The memorandum stated that it would be helpful if at least tentative conclusions on this matter could be received by October 1, and that similar requests were being sent to the Secretary of Commerce and to the Chairmen of the Council of Economic Advisers and the Securities and Exchange Commission.

Chairman Martin stated that he had referred the memorandum from Mr. Folsom to Mr. Riefler, Assistant to the Chairman, and that at Mr. Riefler's request, Mr. Miller, Economist in the Division of Research and Statistics, had prepared a memorandum under date of September 24 covering some of the issues involved. Chairman Martin said that the copies of the communication from Mr. Folsom and the memorandum from Mr. Miller would be sent to the other members of the Board with a view to discussing at another meeting of the Board what statement, if any, should be submitted in response to Mr. Folsom's request.

The following requests for travel authorization were presented:

Name and title	Duration of travel
Henry Benner, Assistant Director, Division of Examinations	September 27 - October 1, 1953

To travel to Chicago, Illinois, to make a survey of the Bank Examination Department of the Federal Reserve Bank of Chicago.

Name and title	Duration of travel
Robert C. Masters, Assistant Director, Division of Examinations	September 28 - October 3, 1953

To travel to Dallas, Texas, to meet with officers and examiners of the Federal Reserve Bank of Dallas to discuss problems and procedures in connection with bank supervision and bank examination.

Robert C. Masters, Assistant Director, Division of Examinations	October 17-24, 1953

To travel to San Francisco, California, to meet with officers and examiners of the Federal Reserve Bank of San Francisco to discuss problems and procedures in connection with bank supervision and bank examination.

Approved unanimously.

Prior to this meeting there had been sent to the members of the Board copies of a memorandum from Messrs. Leonard and Vest, dated September 22, 1953, concerning the present status of the consideration of a plan worked out by members of the Bank Management Commission of the American Bankers Association which would permit the return of unpaid items by drawee banks directly to the first endorsing banks. The memorandum outlined in some detail the work on the plan which had been performed in conjunction with the Bank Management Commission by the Subcommittee on Collections of the Presidents' Conference and its Subcommittee of Counsel on Collections. To the memorandum were attached (1) a description of the proposed procedure for direct return of unpaid items, as revised by the Federal Reserve subcommittees; (2) a list of advantages and disadvantages of the plan; (3) a discussion of the legal status; and (4) a draft of letter which might be used by the American Bankers Association in endeavoring to ascertain the views of all member banks of the Association, or a representative sample of such banks.

The memorandum stated that it was contemplated that later on, depending on the reaction of the banks to the plan, the Bank Management Commission would request the Federal Reserve System to make appropriate amendments to Regulation J, Check Clearing and Collection, with corresponding changes in the operating circulars of the Federal Reserve Banks. It pointed out that in the attached draft of letter reference was made to a possible amendment to Regulation J by the Board and that this statement probably would be considered as more or less of a commitment to make such changes in the regulation as might be necessary if the banks of the country should wish to adopt the direct return procedure.

In reviewing the material contained in the memorandum and its attachments, Messrs. Leonard and Vest referred to the redrafting of the plan which had been done by the two Federal Reserve subcommittees and indicated that there might be a serious question whether the proposal would have active banker support when it had been fully explained. In this connection, Mr. Leonard referred to the proposal by the American Bankers Association that letters soliciting the views of the Association's member banks be sent to a sample of approximately 200 selected banks and to the countersuggestion made by the Federal Reserve subcommittees at a meeting in Boston last week that the sample be enlarged to include approximately 300 smaller banks. An alternative, he pointed out, would be to write such a letter to all of the banks which are members of the Association.

There followed an extended discussion of the advantages and disadvantages of the proposed procedure and of the method of ascertaining its acceptability to commercial banks. It was the consensus that there would be no objection to continued cooperation with the American Bankers Association, that the final decision as to how extensive a survey of bank opinion should be made should be left to the Association, and that if it developed that the commercial banks favored the procedure and the American Bankers Association recommended that it be put into effect, there would be no objection to making appropriate amendments to Regulation J. It was understood that Messrs. Leonard and Vest would communicate these views informally to Messrs. Willis and Hodge, Chairmen of the Subcommittee on Collections and the Subcommittee of Counsel on Collections, respectively.

Mr. Leonard commented that a letter dated September 14, 1953, had been received from Mr. Crane, Federal Reserve Agent at the Federal Reserve Bank of New York, formally recommending that the Board approve the proposed arrangement whereby shipments of new Federal Reserve notes to New York by registered mail would be discontinued and an arrangement would be made with Brink's, Incorporated, under which Brink's would transport new currency from the Bureau of Engraving and Printing by armored car to the National Airport, by chartered plane to Newark or New York, and by armored car from the airport in Newark or New York to the Federal Reserve Bank. Cancelled and cut Federal Reserve notes would be carried on the return trips.

Copies of Mr. Crane's letter had been sent to the members of the Board with a memorandum dated September 23, 1953, from Mr. Myrick, Assistant Director, Division of Bank Operations, which pointed out that the proposal of the New York Bank, at that time made informally, was discussed at the meeting of the Board on August 26, 1953, at which time it was decided that the proposal should not be considered by itself but should serve as the basis for a study of various possibilities of transporting new currency from Washington. At the Board's suggestion, the New York Bank was advised informally of the Board's feeling, and the Presidents' Conference Subcommittee on Cash, Leased Wire, and Sundry Operations, of which Mr. Myrick is an associate member, was advised of the Board's suggestion that a program for making a broad study of currency matters be prepared prior to the next meeting of the Conference of Presidents. A copy of the program of study subsequently prepared by the Subcommittee and submitted by it to the Committee on Miscellaneous Operations was attached to Mr. Myrick's memorandum, along with an excerpt of the Subcommittee's interim report, dated September 4, 1953, which cited some of the factors which appeared to the Subcommittee to be favorable to the New York proposal and some of the factors that appeared unfavorable. It was the conclusion of the Subcommittee that the favorable factors outweighed the unfavorable.

Mr. Leonard stated in this connection that when Mr. Laning, Chairman of the Subcommittee on Cash, Leased Wire, and Sundry Operations, and Mr. Myrick called upon representatives of the Post Office Department to discuss the New York Bank's informal proposal Mr. Albert J. Robertson, Assistant Postmaster General, requested certain figures regarding charges for currency shipments and expressed the hope that no action would be taken on the proposal until he had had an opportunity to review such information. Mr. Leonard said it was Mr. Robertson's thought that a reduction in the schedule of surcharges for currency shipments by registered mail might be effected by the Post Office Department so that such shipments could be made at a cost more comparable to shipment by private carrier.

There were presented telegrams to the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of St. Louis on September 21, by the Federal Reserve Bank of San Francisco on September 22, and by the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, Minneapolis, Kansas City, and Dallas on September 24, 1953, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

The meeting then recessed and reconvened in the Board Room at 2:55 p.m. with Chairman Martin and Governors Szymczak, Evans, and Robertson present, along with Messrs. Carpenter, Kenyon, Leonard, Vest, and Hackley, and Messrs. Thurston, Assistant to the Board, Riefler, Assistant to the Chairman, and Horbett, Assistant Director, Division of Bank Operations.

Governor Robertson referred to the discussions at the meetings on September 21 and 23, 1953, concerning the plan of the Treasury Department to encourage commercial banks to take over a larger volume of Commodity Credit Corporation loans this fall. He said that the Treasury Department, at the request of banker groups and in order to achieve the desired objective, had indicated a willingness to consider amending the face of the call report of condition required by the Federal bank supervisory agencies so as to include under the item of loans and discounts the separate item of Commodity Credit Corporation loans. He said that Mr. Horbett had been asked to attend a meeting with representatives of the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation on September 28 to discuss this proposed change in the condition report and that in the circumstances it would appear desirable for the Board to give some indication at this time of its feeling with respect to the suggested change.

Governor Robertson said that personally he felt that the revision would be inadvisable because it might indicate that the segregated Commodity Credit Corporation loans were the only ones in this general category, whereas there are several other types of obligations held by commercial banks which are covered by guarantees and commitments to purchase by the Federal Government. He noted that Schedule A on the reverse side of the condition report provides at the present time for a breakdown of loans and discounts, including loans to farmers directly guaranteed by the Commodity Credit Corporation. Governor Robertson brought out that, although the reporting banks must publish the face of the condition report, they may publish any other information if they so desire. He suggested, therefore, that the instructions to the banks be amended to specify that in publishing the face of the report, the banks would be free to include any additional memorandum or explanatory note. In response to an inquiry by Mr. Riefler, Governor Robertson said that by this he meant to suggest that the banks should be permitted to publish any breakdown of any category of assets in memorandum form, provided the breakdown was comprehensive and not selective.

There was a general discussion of the proposal during which the other members of the Board present indicated agreement with the views expressed by Governor Robertson. It was suggested, however, that there might be arguments in favor of the proposal which had been expressed by the commercial banks but of which the Board was not aware, and that these might be brought out at the meeting on September 28.

Chairman Martin then suggested that Mr. Horbett be authorized to indicate at the meeting that the tentative views of the Board were along the lines stated by Governor Robertson.

This suggestion was approved unanimously.

Mr. Vest reported in this connection that he had received a telephone call from Mr. Hodge, General Counsel of the Federal Reserve Bank of Chicago, who stated that he had had some conversation with representatives of the Commodity Credit Corporation in Chicago during which they referred to a discussion between representatives of the Treasury Department and the Presidents of the Federal Reserve Banks at the time of the Presidents' Conference earlier this week regarding a proposal under which the Chicago Reserve Bank would act as custodian and registrar in connection with certain certificates of interest in pools of agricultural commodity loans under Commodity Credit Corporation programs. Mr. Vest said that, according to Mr. Hodge, the Commodity Credit Corporation wanted to have a meeting shortly with representatives of the Board, the Federal Reserve Banks, and the Treasury Department, presumably to work out appropriate instructions.

Mr. Leonard and Mr. Horbett then withdrew from the meeting.

Mr. Vest referred to the discussions at several meetings of the Board, most recently on September 11, 1953, regarding the question raised with the Federal Reserve Bank of San Francisco by Bank of America National Trust & Savings Association, San Francisco, California, concerning its right to participate in the nomination and election of a Class A and a Class B director of the Reserve Bank. He reported that the Reserve Bank was now in receipt of the following letter, dated September 17, from Mr. S. C. Beise, Executive Vice President of Bank of America National Trust & Savings Association, addressed to Mr. Wallace, Deputy Chairman of the Reserve Bank:

> Thank you for your letter of September 10th, replying to my letter of September 8th requesting that a nomination form for the election of directors be furnished to this bank.
>
> I know that both your bank and the Board of Governors of the Federal Reserve System are aware that Transamerica Corporation has not owned a single share of stock in this bank nor had a single officer or director who is also an officer or director of this bank for some time. This bank has not been affiliated with Transamerica Corporation in any manner for a considerable period of time, and we should like very much to have that fact officially recognized so that we may not be deprived of our legal rights as the largest stockholder of the Federal Reserve Bank of San Francisco.
>
> Will you please inform us, at your earliest convenience, what else we have to do to obtain an official recognition by the Federal Reserve Bank of San Francisco and the Board of Governors of the Federal Reserve System that this bank is no longer affiliated with Transamerica Corporation.

Mr. Vest said that Mr. Wallace acknowledged receipt of the letter and then sent it on to the Board. He suggested that an acknowledgment be made to the San Francisco Reserve Bank, but that in view of the connection between this matter and the Clayton Act proceeding against Transamerica Corporation, it would be advisable to confer with the Department of Justice before any further reply was made to find out whether that Department would have any objection to whatever reply was proposed. He also felt that it would be preferable if the Board could defer such reply until the petition of the Acting Solicitor General to the Supreme Court of the United States for a writ of certiorari to review the decision of the Third Circuit Court of Appeals in the Transamerica case had been filed.

Following some discussion of the legal and other considerations involved, Governor Robertson suggested that the Board instruct its General Counsel to confer with the Department of Justice to see whether that Department felt that this issue would affect the Transamerica case in any respect. If so, he would favor taking exactly the same position that the Board took in 1952 when Bank of America raised the question. If, however, the Department of Justice felt that it would make no difference, he would favor stating to Bank of America that the Board had concluded that the matter of the bank's participation in the forthcoming nomination and election of Reserve Bank directors was not of sufficient importance to warrant the Board in depriving the bank unnecessarily of any possible rights and, therefore, although the Transamerica case was still pending and the Board would not make a final decision until a final decision in the case had been made by the courts, for the moment the Board would raise no objection to the bank's participation in the nomination and election of directors.

Governor Robertson's suggestion was discussed, and at the conclusion of the discussion Chairman Martin proposed that a letter of acknowledgment be sent to the Federal Reserve Bank of San Francisco, as suggested by Mr. Vest, and that Mr. Vest be requested to confer with the Department of Justice, following which the matter would be given further consideration by the Board.

The procedure suggested by Chairman Martin was approved unanimously, together with the following letter to Mr. Wallace:

Receipt is acknowledged of your letter of September 18, 1953, enclosing a letter from Mr. Beise, dated September 17, 1953, regarding the question whether Bank of America may vote in the forthcoming election of directors of the Federal Reserve Bank of San Francisco.

Please inform Mr. Beise that the matter is receiving attention and that he will be advised as promptly as possible.

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 September 24, 1953, were approved unanimously.

Minutes of the meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks held on September 24, 1953, were approved unanimously.

Memorandum from Mr. Young, Director, Division of Research and Statistics, recommending that the resignation of the following employee in that Division be accepted:

Name and title	Effective date
Dorothy L. Graham, Clerk-Typist	September 18, 1953

Approved unanimously.

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

> The Board of Governors approves the payment of salary to Mr. Walter S. Rushmore, as a Manager, assigned to the Security Custody Department, for the period October 1, 1953, to December 31, 1953, at the rate of $10,500 per annum, which is the rate fixed by the Board of Directors as indicated in your letter of September 18, 1953.

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 September 21, 1953, the Board of Governors approves the payment of salary to Mr. August J. Pettke, Federal Reserve Agent's Representative, Detroit Branch, at the rate of $6,857 per annum, effective October 5, 1953.

Approved unanimously.

Letter to Mr. Powell, President, Federal Reserve Bank of Minneapolis, reading as follows:

> The Board of Governors approves the proposal contained in your letter of September 10, 1953, that the

Federal Reserve Bank of Minneapolis enter into a contract of hospital-surgical benefits with the Minnesota Blue Cross and Blue Shield with the understanding that the proposed self-insurance basis will not result in the Bank's absorption on the average of more than two-thirds of the total cost of such coverage. It is noted that the contemplated cost of this coverage to the Bank is $22,400 per year.

Approved unanimously.

Letter to Mr. Gentry, First Vice President, Federal Reserve Bank of Dallas, reading as follows:

In accordance with your letter of September 11, 1953, the Board of Governors approves the following minimums and maximums for the officer salary groups at the Federal Reserve Bank of Dallas and its Branches:

Group	Minimum Salary	Maximum Salary
A	$14,600	$20,000
B	11,700	17,500
C	9,300	14,000
D	7,500	11,300

Approved unanimously.

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

Reference is made to your letter of August 31, 1953, enclosing a copy of a letter from Mr. Bayard Pope, Chairman of the Board of Marine Midland Corporation, stating that the Corporation proposes to acquire the stock of the Potsdam Bank and Trust Company, Potsdam, New York, in exchange for its own stock and, after acquiring control, to merge that bank with The Northern New York Trust Company, Watertown, New York, establishing a branch of the Watertown institution in the present quarters of the Potsdam Bank and Trust Company.

On the basis of the preliminary information submitted to it, the Board of Governors has no objection to the transaction as proposed but, of course, will base its final action on full information to be furnished with the application for permission to establish the proposed branch. It is understood that the transaction will not require approval of the Board pursuant to the provisions of section 18(c) of the Federal Deposit Insurance Act.

Approved unanimously.

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

This refers to your letter of September 17, 1953, and its enclosures, concerning the proposed issue by the International Bank for Reconstruction and Development of its Three Year Bonds of 1953, dated October 1, 1953, due October 1, 1956 in an aggregate principal amount of $75 million. In this regard you indicate that it is proposed to amend Schedule A of the Fiscal Agency Agreement dated as of February 6, 1950 between the International Bank and your Bank to include the bonds in question.

The Board of Governors approves the contemplated undertaking by your Bank to act as Fiscal Agent with respect to the proposed bond issue and the execution in that connection by your Bank of an agreement with the International Bank in the form of the draft of Supplement No. 5, enclosed with your letter, which is in the form of Supplement No. 4, dated as of October 9, 1952, to the Fiscal Agency Agreement.

Approved unanimously.

S. R. Carpenter

Secretary