

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, October 30, 1953. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Szymczak, Acting Chairman  
Mr. Vardaman  
Mr. Mills  
Mr. Robertson

Mr. Carpenter, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Thurston, Assistant to the Board  
Mr. Riefler, Assistant to the Chairman  
Mr. Leonard, Director, Division of Bank Operations

There was presented a request that Mr. Benner, Assistant Director, Division of Examinations, be authorized to travel to Atlanta, Georgia, during the period November 1-4, 1953, to survey the Bank Examination Department of the Federal Reserve Bank of Atlanta and meet with the examining staff.

Approved unanimously.

The Secretary reported having received a telephone call and an informal memorandum, dated October 29, 1953, from Mr. Bill McDonald, Director of Sales Operations, United States Savings Bonds Division, Treasury Department, who inquired whether the Board would be willing to pay the cost, estimated at approximately \$475, of a luncheon to be given at a local hotel in connection with a National Savings Bonds Conference on November 4 and 5, 1953. The conference, to be attended by State directors, State chairmen, and other volunteer leaders from all parts of the United

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States, was to be held for the purpose of presenting a program for stepping up sales of savings bonds during the coming year.

The matter was discussed in the light of the discussion when a similar request was approved by the Board on March 12, 1953. At that time Chairman Martin stated that he had discussed the general question with Mr. Burgess, Deputy to the Secretary of the Treasury, and that it was agreed that he and Mr. Burgess would meet with Secretary of the Treasury Humphrey for the purpose of trying to develop a more satisfactory approach to the problem of savings bond luncheon and dinner expenses.

It was the consensus of the members of the Board present that some other way should be worked out to handle expenses of this kind, that it would be desirable for Chairman Martin to discuss the matter further at the Treasury, and that the Board should take the position that, after Congress had convened and the Treasury had had an opportunity to present a proposal that such expenditures be covered by appropriations, the Board should not approve additional expenditures of Federal Reserve funds for this purpose.

Thereupon, the payment of the cost of the luncheon on November 5 was approved unanimously, with the understanding that the Secretary would inform Chairman Martin of the consensus of the meeting and that the latter would so advise the Treasury Department. It was also understood that the cost of these luncheons during 1953 would be reported in the

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Board's annual report for the  
current year.

Mr. Leonard reported on a meeting which he attended in the office of Mr. Bartelt, Fiscal Assistant Secretary of the Treasury, on October 28, 1953, with representatives of the Treasury and Post Office Departments present, at which there was discussed a proposed procedure under which the Federal Reserve Banks, as fiscal agents, would receive deposits of surplus funds from United States postmasters. The manner in which the plan would operate and the circumstances involved were covered in a file memorandum prepared by Mr. Leonard under date of October 29, 1953.

In the course of his remarks, Mr. Leonard said that Mr. Robertson, Assistant Postmaster General, who was present at the meeting in Mr. Bartelt's office, indicated that the Post Office Department would like to have the Federal Reserve institute a pilot operation, beginning January 1, 1954, at one or more of the Reserve Banks, mentioning particularly Philadelphia, and that after the pilot program had been put into effect, it might be reviewed by a System committee before the procedure was extended to other Reserve Banks. Mr. Leonard also said that Mr. Bartelt raised the question of reimbursement to the Reserve Banks for their expenses, pointing out that there were no appropriated funds for the purpose and that, more basically, the operation might be a depository function to be handled without reimbursement. The meeting concluded,

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Mr. Leonard said, with Mr. Bartelt suggesting to Mr. Robertson that the next step would be for the Postmaster General to write a letter to the Secretary of the Treasury requesting that consideration be given to the designation of the Federal Reserve Banks as fiscal agents for the purpose of handling the deposits. Mr. Leonard went on to say that he suggested to Mr. Bartelt that he inform Mr. Young, Chairman of the Presidents' Conference Committee on Fiscal Agency Operations, of the proposed procedure.

In response to a question by Governor Szymczak, Mr. Leonard said that no action on the part of the Board was required at this time. He assumed that Mr. Bartelt would get in touch with President Young, that the Treasury and Post Office Departments would work out jointly, and then consider with the Federal Reserve Banks, what form of fiscal agency agreement and what instructions to the Reserve Banks would be appropriate, that the Treasury would keep the Board informed of developments, and that finally the Treasury would formally request the Reserve Banks to act as fiscal agents for this purpose. Mr. Leonard suggested that the Board, through its staff, keep in touch with the Committee on Fiscal Agency Operations and with the Treasury and Post Office Departments so that the Board might be currently advised of any developments.

There followed a general discussion of the proposed procedure and of the broad questions involved in the performance of fiscal agency operations by the Federal Reserve Banks. In the course of the discussion,

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reference was made to the request made at an informal meeting of members of the Board on August 18, 1953, that Mr. Vest, General Counsel, prepare a memorandum reviewing the legal authority of the Board over the activities of the Reserve Banks as fiscal agents, along with a draft of legislation clarifying that authority. Such a memorandum was prepared by Mr. Vest under date of August 26, 1953, and circulated to the members of the Board with a draft of a possible amendment to the Federal Reserve Act which might be recommended to the Congress.

It was understood that this subject, along with the question whether fiscal agency activities of the Federal Reserve Banks should be performed without reimbursement, would be given further consideration at a subsequent meeting of the Board.

Question also was raised whether the proposal that the Reserve Banks act as fiscal agents for the purpose of receiving deposits from postmasters should be placed on the agenda for the next meeting with the Federal Advisory Council to obtain the views of that group. It was the consensus that that should not be done but it was understood that there might be informal discussion of the matter should any member wish to raise it during the meeting with the Council.

Governor Robertson referred to the study being made of various questions in connection with the currency system of the United States,



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and in particular to the statement by Chairman Martin at the joint meeting of the Board and the Reserve Bank Presidents on September 24, 1953, that the committee would include in its assignment a study of the proposal of the Federal Reserve Bank of New York to enter into a contract with Brink's, Incorporated, for the shipment of new Federal Reserve notes from Washington to New York by armored car and airplane. He stated that earlier this week he, Mr. Leonard, Mr. Hexter, Assistant General Counsel, and Mr. Daniels, Chief of the Reserve Bank Operations Section, Division of Bank Operations, met with Assistant Postmaster General Robertson and a member of his staff to discuss the possibility of reducing the surcharge on shipments of currency by registered mail, the thought being that if the rate could be reduced to a point where the cost of registered mail shipment was not greatly in excess of the cost of shipment under contract with private carriers, a continuation of shipment by registered mail might be indicated because of the superior protection afforded. He said Mr. Robertson agreed that the rate of surcharge was not realistic and requested information from four Federal Reserve districts with respect to costs of transporting currency to give him a basis on which to determine what a reasonable surcharge would be.

Governor Robertson said that steps were being taken to obtain the requested information but that he was reporting this development because in the circumstances no recommendation with respect to the proposal

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of the New York Bank could be expected for some time.

There were presented telegrams to the Federal Reserve Banks of Boston, Kansas City, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of Boston on October 26, by the Federal Reserve Bank of San Francisco on October 27, and by the Federal Reserve Bank of Kansas City on October 30, 1953, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

The meeting then adjourned. During the day the following additional actions were taken by the Board with all of the members except Chairman Martin and Governor Evans present:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 27, 1953, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 28 and 29, 1953, were approved and the actions recorded therein were ratified unanimously.

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

Your wire October 29. Board approves granting of loan or loans by your Bank to Banque Nationale de la Republique D'Haiti up to \$1,000,000 on the following terms and conditions:

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- A. Such loan or loans to be made up to 98 per cent of the value of gold bars set aside in your vaults under pledge to you.
- B. Such loan or loans to run for three months and to be renewable in your officers' discretion for a further period of three months but not to mature later than May 31, 1954.
- C. Such loan or loans to bear interest from the date they are made until paid at the discount rate of your Bank in effect on the date on which such loan or loans are made.

It is understood that the usual participation will be offered to the other Federal Reserve Banks.

Approved unanimously.

Telegram to Mr. Knoke, Vice President, Federal Reserve Bank of

New York, reading as follows:

Your wire October 29. Board approves granting of loan or loans by your Bank to the Bank for International Settlements not to exceed \$25 million in the aggregate at any one time outstanding on the following terms and conditions:

- A. Each such loan or loans to be made up to 98 per cent of the value of gold bars to be set aside at the time of each drawing under pledge to you.
- B. Each such loan to run for a period of not more than seven days.
- C. Each such loan to bear interest from the date it is made until paid at the discount rate of your Bank in effect on the date such loan is made.
- D. The loan arrangement to expire within three months after the date on which you signify to Bank for International Settlements your willingness to extend these facilities, but to be renewable in your officers' discretion for a further period of three months, but not to mature later than May 31, 1954.

It is understood that the usual participation will be offered to the other Federal Reserve Banks.

Approved unanimously.



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Letter to Mr. Michael E. Mooney, General Counsel, American Stock Exchange, New York, New York, reading as follows:

This refers to your letter of October 21 concerning the application of section 4(f)(4) of Regulation T. Briefly, that section provides for a special miscellaneous account in which a creditor may effect and finance, on a preferential basis, transactions of registered odd-lot dealers, and also transactions of joint adventures, the participants in which are registered odd-lot dealers.

You asked whether a creditor may effect and finance in a section 4(f)(4) account for an odd-lot dealer not only odd-lot transactions in securities in which the dealer is registered and with respect to which he acts as an odd-lot dealer, but also transactions in round-lots in such securities in connection with the conduct of the dealer's business as an odd-lot dealer. You asked particularly whether this would be proper in a section 4(f)(4) account even though the creditor and the odd-lot dealer are not participants in a joint adventure as described in the latter part of section 4(f)(4).

The Board is of the view that both questions should be answered in the affirmative. It is recognized that round-lot transactions in the securities in which the odd-lot dealer is registered and with respect to which he acts as an odd-lot dealer are frequently a necessary part of his business as an odd-lot dealer. Accordingly, the Board does not feel that any of the provisions of section 4(f)(4) should be regarded as applying only to transactions in odd lots.

In your letter you pointed out that the functions of odd-lot dealer and specialist are combined in the same person in the case of the American Stock Exchange. As you suggested, this raises the question as to whether the creditor of the specialist-odd-lot dealer is required to handle transactions properly classifiable as odd-lot transactions in a section 4(f)(4) account and handle the specialist transactions separately in conformance with section 4(g) of the regulation.

As a practical matter it is understood to be extremely doubtful in such instances whether an adequate or suitable separation can be made between the odd-lot transactions and

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the transactions of the same individual as specialist. In the circumstances and in view of the relationship in such situations between the two types of activity of the customer, it is the Board's view that it would not be improper if a section 4(f)(4) account included specialist transactions as well as the usual odd-lot transactions. Of course, no transaction should be included in a section 4(f)(4) account other than transactions in the securities in which the dealer is registered as an odd-lot dealer.

A copy of this letter is being forwarded to the Federal Reserve Bank of New York which is prepared to discuss the regulation with persons who have questions with respect thereto. It is suggested that if you have any further questions concerning the regulation, you may find it more convenient to contact that Bank which will be glad to assist you.

Approved unanimously.



Secretary