

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, February 4, 1954. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman  
Mr. Szymczak  
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. Young, Director, Division of Research and Statistics  
Mr. Youngdahl, Assistant Director, Division of Research and Statistics

Telegrams had been received before this meeting from the Federal Reserve Banks of Boston and San Francisco stating that the directors of those Banks had acted, subject to review and determination by the Board of Governors, to reduce the discount rate at the respective Banks from 2 per cent to 1-3/4 per cent. In addition, Chairman Martin reported having been advised informally that the directors of at least two other Federal Reserve Banks were expected to take similar action at meetings to be held today.

Following a discussion of the reasons justifying a reduction in the discount rate at this time, it was agreed that the Board would meet again this afternoon at 4:00 p.m., at which time it would consider approving

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a reduction in the discount rate, effective February 5, 1954, at any Federal Reserve Bank the directors of which had taken such action by that time and advised the Board.

At this point Mr. Solomon, Assistant General Counsel, entered the room.

As the result of questions which arose relating to certain activities, or proposed activities, of corporations organized under section 25(a) of the Federal Reserve Act (the so-called Edge Act corporations), the staff had undertaken, beginning in early 1953, a study of the proper scope of activities of such corporations, with particular reference to activities in the United States. The results of that study were embodied in the following memoranda and attachments, copies of which had been sent to the members of the Board prior to this meeting:

Memorandum dated November 6, 1953, from Mr. Solomon, Assistant General Counsel, submitting a draft of an "Outline of Activities of an Edge Corporation Which Are Appropriate or Inappropriate in the United States".

Memorandum dated December 4, 1953, from Mr. Goodman, Assistant Director, Division of Examinations, submitting a proposed revision, or alternative draft, of the outline submitted by Mr. Solomon.

Governor Robertson stated that he and Governor Szymczak had met with interested members of the staff and that in view of the differences of opinion between the Legal Division and the Division of Examinations as to the proper scope of activities of Edge Act corporations in the United States and the complexity of the subject, it was his recommendation that

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the study be carried forward by an ad hoc committee appointed by the Board which would retain the services of some qualified person outside the System to direct the study at the staff level. He envisaged that the investigation would include consultation with, and receipt of views from, persons having knowledge of or having an interest in the activities of Edge Act corporations.

Agreement was expressed by the other members of the Board regarding the desirability of obtaining more data on the subject and regarding the approach suggested by Governor Robertson. It was suggested, however, that it might not be necessary to name an ad hoc committee but that the Board might designate one of its members to have charge of the study.

Following a discussion, this suggestion was approved unanimously and Governor Szymczak was designated as the member of the Board to have charge of the study, with the understanding that he was authorized to negotiate for the services of a qualified outside person who would direct the technical phases of the investigation, that he would be free to confer with the other members of the Board to such extent as he might desire and to utilize the services of members of the staff in any way that he saw fit, and that at the conclusion of the study he would submit recommendations to the Board.

At this point Mr. Allen, Director, Division of Personnel Administration, entered the room.

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At the joint meeting of the Board and the Presidents of the Federal Reserve Banks on December 15, 1953, the Presidents' Conference submitted to the Board a recommendation that the rules and regulations of the Retirement System of the Federal Reserve Banks be amended so as to allow credit for service rendered prior to age 21 and prior to the establishment of the Retirement System. The recommendation was the subject of a memorandum dated January 25, 1954, from the Division of Personnel Administration, copies of which had been sent to the members of the Board prior to this meeting. The memorandum reviewed the situation which had given rise to the recommendation of the Presidents' Conference and stated reasons which might be given for and against favorable action by the Board in respect to the proposed amendment.

Following additional comments on the matter by Mr. Allen, there was a general discussion of the proposal during which reference was made to the liberal benefits that were provided without cost to Reserve Bank employees when the Retirement System was established and to the considerable cost of funding the liability that would accrue if the proposal were adopted. It was noted in this connection that only a relatively small percentage of the Reserve Bank personnel would benefit thereby.

At the conclusion of the discussion, unanimous approval was given to a letter to Mr. Leach, Chairman of the Presidents' Conference, in the following form:

The Board of Governors has considered the recommendation of the Conference of Presidents in its meeting of December 14

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and 15, 1953, that the Rules and Regulations of the Retirement System of the Federal Reserve Banks be amended to allow service credit prior to age 21 and prior to the establishment of the Retirement System.

The Board is of the opinion that any inequities caused by this restriction are not sufficiently great to warrant such an amendment at this time. The Board feels that the initial treatment of prior service employees was sufficiently generous, that this restriction is very moderate in comparison to those normally found, and that the estimated cost of \$2,500,000 for funding the accrued liability thus set up could not be justified at this time.

With reference to the discussion on January 12, 1954, regarding proposed amendments to the regulations of the Home Loan Bank Board concerning branches and agencies of Federal savings and loan associations, Governor Robertson stated that hearings subsequently were held before the Home Loan Bank Board, that almost all of those who appeared opposed the contemplated amendments, and that hearings were now planned before a subcommittee of the Senate Banking and Currency Committee. He said that in the circumstances he had requested the Legal Division to draft a statement which might be presented by the Board if its views were requested, and that if such a request was received the statement would be submitted to the Board for consideration.

The meeting then recessed and reconvened at 4:00 p.m. with all of the members of the Board except Governor Szymczak present. Messrs. Carpenter, Sherman, Kenyon, Thurston, Riefler, Thomas, Young, Youngdahl, and Molony, Assistant to Mr. Thurston, were also present.

It was stated that advice had now been received that the directors of the Federal Reserve Banks of Boston, New York, Philadelphia, St. Louis,

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and San Francisco had acted to reduce the discount rate at the respective Banks from 2 per cent to 1-3/4 per cent. These Banks had also made certain changes in other rates in their existing schedules.

Thereupon, unanimous approval was given to telegrams reading as follows, with the understanding that advice would be sent by telegram to the Presidents of all Federal Reserve Banks and that a notice would be sent to the Federal Register:

To Mr. Erickson, President, Federal Reserve Bank of Boston

Reurtel February 4, Board approves effective February 5, 1954, rates of 1-3/4 per cent on discounts for and advances to member banks under Sections 13 and 13a; 2-1/4 per cent on advances under Section 10(b); and 2-3/4 per cent on advances to individuals, partnerships or corporations other than member banks under last paragraph of Section 13. Otherwise Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule, advice of which was contained in your telegram of February 4. Board's announcement will be handed to press at 4:45 p.m. Eastern Standard Time today for immediate release.

To Mr. Treiber, First Vice President, Federal Reserve Bank of New York

Reurtel February 4, Board approves effective February 5, 1954, rates of 1-3/4 per cent on discounts for and advances to member banks under Sections 13 and 13a and 2-1/4 per cent on advances under Section 10(b). Otherwise Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule, advice of which was contained in your telegram of February 4. Board's announcement will be handed to press at 4:45 p.m. Eastern Standard Time today for immediate release.

To Mr. McCreedy, Vice President and Secretary, Federal Reserve Bank of Philadelphia

Reurtel February 4, Board approves effective February 5, 1954, rates of 1-3/4 per cent on discounts and advances to member banks under Section 13 and 13a; 2-1/4 per cent on advances under Section 10(b); and 1-3/4 per cent on discounts

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for Federal Intermediate Credit Banks. Otherwise Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule, advice of which was contained in your telegram of February 4. Board's announcement will be handed to press at 4:45 p.m. Eastern Standard Time today for immediate release.

To Mr. Johns, President, Federal Reserve Bank of St. Louis

Reurtel February 4, Board approves effective February 5, 1954, rates of 1-3/4 per cent on discounts for and advances to member banks under Sections 13 and 13a; 2-1/4 per cent on advances under Section 10(b); and 1-3/4 to 2-1/4 per cent on discounts for and purchases from financing institutions under Section 13b for which financing institution is obligated. Otherwise Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule, advice of which was contained in your telegram of February 4. Board's announcement will be handed to press at 4:45 p.m. Eastern Standard Time today for immediate release.

To Mr. Millard, Vice President, Federal Reserve Bank of San Francisco

Reurtel February 3, Board approves effective February 5, 1954, rates of 1-3/4 per cent on discounts and advances to member banks under Sections 13 and 13a; 2-1/4 per cent on advances under Section 10(b); and 1-3/4 per cent on discounts for Federal Intermediate Credit Banks. Otherwise Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule, advice of which was contained in your telegram of February 3. Board's announcement will be handed to press at 4:45 p.m. Eastern Standard Time today for immediate release.

The press statement referred to in the foregoing telegrams was approved unanimously by the Board in the following form:

The directors of the Federal Reserve Banks of Boston, New York, Philadelphia, St. Louis, and San Francisco have established a discount rate at the respective Banks of 1-3/4 per cent, and the Board of Governors has approved these actions, effective Friday, February 5, 1954. The rate previously in effect at these Banks was 2 per cent.

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Chairman Martin stated that Governor Szymczak was prevented from attending this meeting because of illness but had asked that the minutes reflect his concurrence in the above action.

Messrs. Thurston and Molony then withdrew from the meeting.

Governor Evans said that on the occasion of a recent visit to the Board's offices, Mr. Johns, President of the Federal Reserve Bank of St. Louis, discussed further developments in connection with the selection of a site for a new Louisville Branch building, and that it appeared there was now general agreement in Louisville on a site which had previously been under consideration. He said that the directors of the branch and the head office were to consider the matter at meetings in the near future, and that, in all likelihood, a recommendation would be submitted to the Board of Governors shortly. Governor Evans went on to say that the plans reported by President Johns called for the acquisition of somewhat less than a full block, and that he (Governor Evans) had suggested that the Reserve Bank explore the advisability of acquiring the remaining parcels in the block.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 3, 1954, were approved unanimously.



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Letter to Mr. Brawner, Federal Reserve Agent, Federal Reserve Bank of San Francisco, reading as follows:

In accordance with the request contained in your letter of January 29, 1954, the Board of Governors approves the appointment of Mr. John E. Walsh as an Alternate Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco.

This approval is given with the understanding that Mr. Walsh will be placed upon the Federal Reserve Agent's pay roll and will be solely responsible to him or, during a vacancy in the office of the Agent, to the Assistant Federal Reserve Agent, and to the Board of Governors, for the proper performance of his duties. When not engaged in the performance of his duties as Alternate Assistant Federal Reserve Agent he may, with the approval of the Federal Reserve Agent or, during a vacancy in the office of the Federal Reserve Agent, of the Assistant Federal Reserve Agent, and the President, perform such work for the Bank as will not be inconsistent with his duties as Alternate Assistant Federal Reserve Agent.

It is noted from your letter that, upon the approval of Mr. Walsh's appointment as an Alternate Assistant Federal Reserve Agent by the Board of Governors, he will execute the usual oath of office which will be forwarded to the Board of Governors together with advice of the effective date of his appointment.

Approved unanimously.

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

This refers to your letter of January 28, 1954 with respect to amendments to the bylaws of the Federal Reserve Bank of Chicago and its Detroit branch. It is noted that these amendments merely reflect the recent change in the territory apportioned to the Detroit branch and increase the board of directors of such branch from 5 to 7 members.

The Board has heretofore given its approval for the change in territory of the branch and hereby gives its approval to the increase in the number of directors.

Approved unanimously.

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Letter to the Presidents of all Federal Reserve Banks reading as follows:

The classification of member banks for purposes of electing Class A and Class B directors was discussed at the joint meeting of the Board and the Presidents on September 24, 1953, at which time there was general agreement that the formula suggested by the Board in 1934, if interpreted flexibly with regard for variations in the several Federal Reserve Districts, is a satisfactory base.

For convenient reference the 1934 suggestion (Board's letter of September 19, 1934, X-8012) is restated below:

The number of member banks in Group 2 will be approximately one-third of the total number of member banks in the district, with the number of member banks in Group 1 as nearly as may be in the same ratio to the total number of all member banks as the combined capital and surplus of member banks in Group 3 bears to the combined capital and surplus of all member banks.

It was understood at the September joint meeting that each Federal Reserve Bank would make a review after the close of 1953 and submit to the Board any suggestions for changes in the classification of member banks for electoral purposes.

It will be appreciated if you will inform the Board of the results of the review, together with your recommendation, by May 1. In this connection, please supply a tabulation showing under the present classification, and under the proposed classification if a change is recommended, percentages of each group to the total for both the number and the capital and surplus of member banks in the district.

Also, please furnish the Board with an array, as of the end of 1953, of the member banks according to combined capital and surplus, those having the smallest capital and surplus to be shown first, together with cumulations of number and capital and surplus, totals of which should agree with call-report data. This statement should be prepared in the form used heretofore (Board's letter of October 12, 1928, X-6159) and restated below for convenience. The capital and surplus of a member bank for this purpose should be the same as that used in determining its required holdings of Federal Reserve bank stock.

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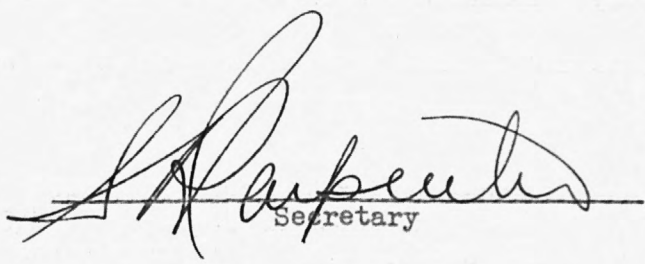
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NUMBER AND CAPITAL AND SURPLUS OF MEMBER BANKS IN \_\_\_\_\_  
FEDERAL RESERVE DISTRICT, GROUPED ACCORDING TO CAPITAL AND  
SURPLUS

(Based on \_\_\_\_\_, \_\_\_\_\_ condition reports)

Capital and surplus	Number of banks with capital and surplus shown	Cumulative figures	
		Capital and surplus	Number of banks
\$25,000	3	\$75,000	3
26,000	2	127,000	5
27,000	2	181,000	7

Approved unanimously.



Secretary