Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, April 15, 1954. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Allen, Director, Division of Personnel Administration
Mr. Cherry, Legislative Counsel

Mr. Cherry presented a review of legislative developments of interest to the Federal Reserve System during the course of which he referred to Bill H.R. 8753, introduced by Representative Jonas of North Carolina and referred to the Committee on Government Operations, which would authorize the Administrator of General Services to establish and operate motor vehicle pools. Mr. Cherry said that the language of the bill was very broad, that it might be argued that the provisions of the bill applied to the Board, and that he did not believe the exemptions contained in the bill would affect the Board. He foresaw the possibility of passage of the bill during the current session of Congress.

It was Mr. Cherry's opinion that the Board should not request a specific exemption from the provisions of Bill H.R. 8753, his thought being that if the bill should be enacted, efforts could be made to work out a mutually satisfactory agreement with the Administrator of General

Services.

The members of the Board indicated agreement with the views expressed by Mr. Cherry.

Governor Robertson referred to the Board's letter of March 31, 1954, to the Budget Bureau expressing its views on a draft of a bill proposed by the Treasury Department which would modify the current statutory requirement that every national bank be examined at least twice in each calendar year by authorizing the Comptroller of the Currency, in his discretion, to waive one such examination. He said that in accordance with the understanding at the meeting on April 6, Deputy Comptroller of the Currency Jennings visited him yesterday to discuss the matter and, speaking in favor of the proposed bill, brought out that (1) there is no real need for two examinations a year of some larger banks, (2) much of the time of the examiners now taken up in the second examination of such banks could be used to better advantage in smaller banks, and (3) the Comptroller's Office might achieve a saving in expenses.

Governor Robertson then referred to the memorandum concerning the proposed bill which the Treasury Department had sent to the Budget Bureau, in which it was stated that at the present time not less than 75 per cent of the national banks could meet the high standards necessary to qualify for less frequent examinations. He said that, despite this language, Mr. Jennings did not anticipate that the second examination would be waived immediately in such a large percentage of cases, but rather that the adjustment would be a gradual one. In addition, Mr. Jennings indicated that it was intended to have examiners spend more time than at present in examining banks found to be in less satisfactory condition. Governor Robertson pointed out that from Mr. Jennings' comments it appeared that there was quite a difference between what the Comptroller's Office intended to do and what might be done under the terms of the proposed bill.

Governor Robertson went on to say that upon rereading the Board's letter to the Bureau of the Budget he concluded that the Board's approach to the proposed legislation, as stated in the letter, was reasonable. The letter, he brought out, did not deny that there were banks needing only one examination a year, but merely pointed to certain possible hazards if a bill of the type submitted should be enacted. He added that the Bureau of the Budget apparently had indicated to the Comptroller's Office that the bill would be held up until the Bureau heard further from Mr. Jennings, and that Mr. Jennings indicated he would recommend sending the proposal to the Congress regardless of the Board's letter.

Governor Robertson concluded by suggesting that the matter be discussed further at a meeting when all of the members of the Board were present.

Mr. Allen stated that a representative of the Committee on Retirement Policy for Federal Personnel had inquired whether members of the Committee's staff might come to the Board's offices to study the retirement coverage of Board personnel. He recalled, in this connection, that at the meeting on April 2, 1954, Governor Mills reported receiving a telephone call from Mr. H. Eliot Kaplan, Chairman of the Committee, who advised that the Committee had completed its principal reports to the

Congress, which would concern integration of benefits payable under the Civil Service Retirement System and the retirement system for the uniformed services with social security benefits. Mr. Allen referred to a memorandum which he had prepared under date of April 13, 1954, stating that the Committee, which was authorized to continue its work until June 30, 1954, now wished to study some of the smaller retirement systems covering Federal personnel such as plans covering Board employees, the retirement plan for personnel of the Tennessee Valley Authority, and the retirement plan for the foreign service employees of the Department of State. The Committee contemplated that as a result of this review a separate report on these plans might be transmitted to the Congress.

Mr. Allen said that members of the Board's staff had considered the matter and recognized that the language of Public Law 555, 82d Congress, establishing the Committee on Retirement Policy for Federal Personnel was very broad, in that it provided that "the Committee shall make a comparative study of all retirement systems for all Federal personnel and report to the Congress not later than June 30, 1954". The staff also recognized that once a review of the retirement plans covering Board employees was started by the Committee, the matter of the Committee's conclusions would be pretty much out of the Board's hands and might result in recommendations by the Committee to the Congress for major change in the plans. Nevertheless, it was felt that the Committee should be informed that there was no objection to its making a review of the retirement plans covering Board personnel.

Mr. Vest stated, in response to a question by Chairman Martin, that in view of the wording of the law he felt the Board would not be able to decline the request, even if it were disposed to do so.

Chairman Martin stated that he felt the Committee should be invited to make the review it had requested, and he added the comment that if the Committee subsequently were to consider recommendations objectionable to the Board, he or Governor Mills, in their meetings with the Committee, could endeavor to present the Board's views.

> Following a discussion, it was agreed unanimously that Mr. Allen should advise the Committee on Retirement Policy for Federal Personnel that the Board would have no objection to a review of the retirement coverage of Board personnel by the staff of the Committee.

Messrs. Allen and Cherry then withdrew from the meeting.

Governor Szymczak referred to the report which he made to the Board in executive session on April 1, 1954, concerning the meeting of the Joint Fiscal Agency Policy Committee that was held at the Treasury earlier that day. The meeting, which was attended by Governor Szymczak, Mr. Young, President of the Federal Reserve Bank of Chicago, Mr. Burgess, Deputy to the Secretary of the Treasury, and Mr. Bartelt, Fiscal Assistant Secretary of the Treasury, was devoted principally to a discussion of the subject of reimbursement to the Federal Reserve Banks for the cost of performing operations in connection with the handling of deposits by United States postmasters. The discussion related to the costs already incurred for the pilot operations carried on by three Federal Reserve Banks (Philadelphia, Richmond, and Atlanta) as well as the costs that would be incurred when other Federal Reserve Banks started to perform the same function. Mr. Burgess, speaking on behalf of the Treasury, favored in principle reimbursement of the Federal Reserve Banks for fiscal agency operations performed, but pointed out that in this particular instance there had been no appropriation of funds by Congress for the work. After discussion, it was agreed that the costs incurred in the pilot operations would be absorbed by the Federal Reserve Banks concerned up to April 1, 1954. However, Mr. Burgess said that the Treasury would give careful consideration to requesting Congress to appropriate funds to reimburse the Federal Reserve Banks for costs incurred in the handling of postmasters' deposits beginning April 1, 1954. In the circumstances, it was understood that all of the Reserve Banks would keep records of the costs of this operation pending such time as the Treasury had funds available out of which to make reimbursement.

Governor Szymczak said that upon his return to Chicago, President Young prepared a draft of telegram covering the matter, to be sent to the other Federal Reserve Bank Presidents, and that he suggested inclusion of a paragraph which he felt represented the consensus of the April 1 Committee meeting. At Mr. Young's request, Governor Szymczak endeavored to clear the wording of the paragraph with Mr. Burgess, but before such clearance had been obtained Governor Szymczak received from Mr. Young a copy of a telegram, reading as follows, which Mr. Young had sent to the other Reserve Bank Presidents on April 7:

> At a meeting of the Joint Fiscal Agency Policy Committee held at the Treasury in Washington, April 1, (Present: Governor Szymczak, W. Randolph Burgess, C. S. Young, and E. F. Bartelt) I requested, on behalf of the Presidents' Conference, that the Post Office deposit operation be placed on a full reimbursable basis.
>
> The Treasury representatives agreed in principle that this type of operation should be on a reimbursable basis, but pointed out that no funds are included in either the Treasury or Post Office appropriation bill for 1955 to cover such expenses. They suggested, however, that the Federal Reserve Banks, commencing April 1, keep a record of these expenses in a suspense account pending an opportunity to request an appropriation. They believed that the savings resulting from the change in procedure will commend itself to the favorable consideration of the Congress.
>
> Mr. Leonard of the Board's staff undoubtedly will contact each President regarding uniform procedure in handling these accounts.

Governor Szymczak said that after receiving his copy of the above telegram, he called Mr. Young, who reported that Mr. Bartelt had suggested the language used in the second paragraph and that he (Mr. Young) assumed it had been cleared with Governor Szymczak.

Governor Szymczak said that he had no recommendation on the matter at this time, but that at the meeting of the Presidents' Conference in June the Presidents probably would undertake to discuss this subject. In the circumstances, he suggested that the Board might wish to say to the Presidents at that time that perhaps it would be inadvisable for the Treasury to request a special appropriation for this particular purpose since that might lead to a Congressional discussion of the whole subject of reimbursement to the Federal Reserve Banks for fiscal agency and depositary functions. It was Governor Szymczak's views that a request by the Treasury for an appropriation would not be advisable unless it could be made in such a way that the over-all question of reimbursement would not be brought up.

In the course of a discussion of Governor Szymczak's report, it was suggested that by the time of the next meeting of the Presidents' Conference it might be too late for the Treasury to include a request in an appropriations bill for the fiscal year 1955. Chairman Martin proposed, therefore, that there be a further discussion of the matter by the Board at the first opportunity when all of the members were present.

This suggestion was approved unanimously.

Mr. Leonard then withdrew from the meeting.

Chairman Martin stated that he had received a telephone call this morning from Mr. Sproul, President of the Federal Reserve Bank of New York, who said that the board of directors of the Bank was meeting today and might act to establish the Bank's discount rate at 1-1/2 rather than 1-3/4 per cent.

After a discussion, it was agreed unanimously that, if advice should be received today that the New York Bank or any other Reserve Bank had fixed a rate of 1-1/2 per cent on discounts for and advances to member banks under section 13 and 13a of the Federal Reserve Act, the Secretary's Office would be authorized to advise such Banks that the Board of Governors approved the establishment of that rate, effective April 16, 1954. This action was taken with the understanding that the Board would make an announcement to the press at 3:30 p.m., Eastern Standard Time, for immediate release, in a form similar to the release of April 13, 1954, concerning the discount rate at the Federal Reserve Bank of Chicago; and with the further understanding that advice would be sent by telegram to the Presidents of all Federal Reserve Banks and the Vice Presidents in charge of Federal Reserve Bank branches, and that a notice would be sent to the Federal Register.

Secretary's note: Pursuant to the authority given in the above action, telegrams reading as follows were sent later in the day to the Federal Reserve Banks of New York and San Francisco:

To Mr. Sproul, President, Federal Reserve Bank of New York

Reurtel April 15. Board approves, effective April 16, 1954, rate of 1-1/2 per cent on discounts for and advances to member banks under sections 13 and 13a. Board's announcement will be handed to press at 3:30 p.m. Eastern Standard Time today for immediate release. Expect to send you advice of action on other rates mentioned in your telegram tomorrow.

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

Reurtel April 15. Board approves, effective April 16, 1954, rate of 1-1/2 per cent on discounts for and advances to member banks under sections 13 and 13a. Board's announcement will be handed to press at 3:30 p.m. Eastern Standard Time today for immediate release. Expect to send you advice of action on other rates mentioned in your telegram tomorrow.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 14, 1954, were approved unanimously.

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

The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of San Francisco for the period April 19, 1954, through December 31, 1954, at the rates indicated, which are the rates fixed by the Board of Directors as reported in your letter of April 7, 1954.

Name	Title	Annual Salary
Eliot J. Swan	Vice President and Cashier	$14,000
Donald M. Davenport	Assistant Cashier	8,500

Approved unanimously.

Letter to the Comptroller of the Currency, Treasury Department, Washington, D. C. (Attention: Mr. W. M. Taylor, Deputy Comptroller of the Currency), reading as follows:

Reference is made to a letter from your office dated March 3, 1954, enclosing photostatic copies of an application to organize a national bank at Omaha, Nebraska, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application, made by a representative of the Federal Reserve Bank of Kansas City, indicates generally satisfactory findings with respect to all of the factors usually considered in connection with such applications, except with respect to the adequacy of the capital. It appears that the proposed bank is planning a substantial investment in fixed assets, and it is felt that some additional capital should be supplied to offset, to some extent at least, this proposed investment. After careful consideration of the situation, the Board of Governors recommends approval of the application, provided arrangements are made for a capital structure satisfactory to your office.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office, if you so desire.

Approved unanimously.

Assistant Secretary