

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, May 21, 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. Leonard, Director, Division of Bank Operations
 Mr. Bethea, Director, Division of Administrative Services
 Mr. Sloan, Director, Division of Examinations
 Mr. Solomon, Assistant General Counsel
 Mr. Hackley, Assistant General Counsel

Prior to this meeting drafts of letters reading as follows had been circulated to the members of the Board:

Letter to Mr. Clark, First Vice President, Federal Reserve Bank of Atlanta

The Board authorizes the preparation of final plans and specifications for the additions to and alterations of the Head Office building on the basis of the preliminary plans designated as Scheme II submitted with your letter of March 17 and modified and supplemented by your letter of April 21.

It is noted that the program contemplates the construction of the garage and security entrance on the west lot before starting the addition on the east lot.

The program as submitted provides for the modernization of the elevator in the Silvey building. The program as now proposed does not involve the integration of the Silvey building with the main building and contemplates that after completion of the addition all operations will be concentrated in the enlarged main building. It would seem, therefore, that modernization of the elevator in the Silvey building would not be an essential part of the program and might well be deferred unless this modernization is essential for the safe and efficient operation of the building in the immediate future.

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Letter to Mr. Fulton, President, Federal Reserve Bank of Cleveland

The Board authorizes the preparation of final plans and specifications for additions to and alterations of the Pittsburgh Branch building on the basis of the preliminary plans and data submitted with your letter of April 9.

Two comments are made at this time with respect to the preliminary plans. Mr. Persina, the Board's Consulting Architect, has called attention to the fact that the preliminary specifications call for floor loads of 100 pounds per square foot for the basement and first floor, but for loads of 50 pounds on the upper floors. He suggests that to provide maximum flexibility for use of the space, including allowance for machine loads, the upper floors as well be designed to carry loads of 100 pounds per square foot. The specifications also call for a floor load of 300 pounds per square foot in the new vault. Whether this is adequate depends upon a number of conditions, and Mr. Persina deferred expression of opinion on this point pending review of further data. Comments as to vault construction will be made later after further study of this general matter.

Transmitted with your letter was a copy of an agreement dated March 23 with Mr. Cocken, architect, providing for the payment of \$15,000 for work in connection with the preliminary plans and containing the usual provision that the Bank is under no commitment to retain his services for work beyond the preparation of the preliminary plans, but that if he should be engaged to render the further services of preparing final plans and other work in connection with the program, the \$15,000 payment would be credited upon any fees or compensation for such further services. The agreement, itself, makes no reference as to the basis for such further fees, except that it be upon a mutually agreeable basis. The estimate of costs prepared by the architect, however, indicates that he has estimated architect's and engineering fees at 7-1/2 per cent. This is higher than paid architects by other Reserve Banks for work on recent or current programs.

Architectural fees for the three latest branch buildings, Jacksonville, Portland, and Seattle, were 6 per cent and that is likewise the fee for the San Antonio Branch, for which final plans have been prepared; for the addition to the Charlotte Branch, for which final plans are being prepared; and

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for the proposed Buffalo building. The architectural fee for the Baltimore project, which involves the addition of several stories to the building, is 6-1/2 per cent; this is also the fee for the proposed Louisville Branch building, the architects stating in this case that the usual fee would be 6 per cent but that because of its being an out-of-town project the fee is slightly larger to take care of additional expense. This background is mentioned for your consideration in negotiations with your architects.

Following a discussion, the letters were approved unanimously.

Mr. Leonard then withdrew from the meeting.

There had been sent to each member of the Board in advance of this meeting a copy of a memorandum from Mr. Hackley dated May 19, 1954, to which was attached a draft of a proposed letter to Chairman Millikin, of the Senate Finance Committee, prepared at the suggestion of Governor Robertson. The purpose of the proposed letter was to recommend, in effect, that pension trusts and employees' profit-sharing plans of banking institutions, in order to qualify for tax exemption under the pending tax bill, H.R. 8300, be prohibited from owning more than 5 per cent of the voting stock of any one corporation, including the banking corporation establishing such a pension trust or plan. Mr. Hackley's memorandum stated that if the Board should decide to send such a letter to the Senate Finance Committee, it was contemplated that copies of the letter would also be furnished to the Comptroller of the Currency and the Federal Deposit Insurance Corporation. The memorandum also raised the question whether the letter should be submitted to the Bureau of the Budget for

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clearance, in accordance with the customary practice, before being sent to the Finance Committee.

At the request of the Board, Governor Robertson made a statement in which he said that the draft of letter had been prepared principally to put the subject before the Board for consideration. While he thought that there probably was not much likelihood of getting the pending tax bill changed to incorporate the suggestions contained in the proposed letter, he felt that attention should be called to the problem, a growing one which, in his opinion, would require legislation sooner or later. At the present time, Governor Robertson said, the problem could be dealt with without major injustices, which might not be the case if legislation was delayed.

In response to questions, Governor Robertson said he anticipated that the Treasury might take the position that the problem was one which should be dealt with in bank supervisory legislation rather than in a tax bill, and, in the circumstances, the recommendations made in the proposed letter were held to a minimum believed to be necessary to cope with the problem. He noted that this situation emphasized the need for clearance of the letter with the appropriate parties.

At the conclusion of a discussion based on Governor Robertson's comments, Chairman Martin suggested that the draft of letter which had been prepared be sent to the Secretary of the Treasury so that the Treasury Department might have an opportunity to express itself with respect to the

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proposal and register an opinion as to whether it would be feasible to amend the pending tax bill in the manner suggested.

Governor Robertson stated that this procedure would be satisfactory to him. He suggested that if it were followed, the name of the addressee be omitted so that the letter might be submitted to the Treasury as a letter which the Board was considering sending to the Bureau of the Budget and to the Congress.

Thereupon, unanimous approval was given to a letter to the Honorable George M. Humphrey, Secretary of the Treasury, Washington, D. C., in the following form:

A provision in the pending tax bill, H. R. 8300, with respect to tax exemption of employees' pension trusts and profit-sharing plans, would provide certain limitations on investments by such pension trusts or plans in corporate stocks. This provision has suggested the question whether investments in corporate stocks by pension trusts and employees' profit-sharing plans of banking institutions should be subject to somewhat stricter limitations than those contained in the tax bill.

In this connection, there is enclosed a copy of a draft of a proposed letter regarding this matter which might be submitted to the Bureau of the Budget and to Congress. Before sending any letter of this kind, however, the Board would appreciate an expression of your views with respect to this proposal.

Secretary's Note: The enclosure referred to in the foregoing letter read as follows:

In connection with the pending tax bill, H. R. 8300, the Board wishes to bring to your attention a matter affecting banking institutions which is of interest to the Federal Reserve System.

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Under section 501(e) of the pending bill, tax exemption is granted to employees' pension trusts and employees' profit-sharing plans subject to certain conditions and limitations. Among other things, it is provided by section 505 of the bill that, in order to qualify for such exemption, a pension trust or employees' profit-sharing plan may not invest its funds in the securities of any one issuer in an amount greater than 5 per cent of the total assets of the trust or 10 per cent of the voting stock of such issuer. These limitations would not apply to investments made before March 1, 1954; nor would they apply to investments in stock of the establishing or "employer" corporation.

While it expresses no view as to other types of corporations, the Board believes that stock investments by pension trusts and employees' profit-sharing plans of banking institutions should be subject to limitations somewhat stricter than those provided by the pending bill. It may be noted that, while pension trusts and plans of this kind have grown up among banks only in relatively recent years, there are, however, a few instances in which such a plan established by a bank now owns more than 10 per cent of the stock of a single issuing corporation.

Under Federal law, banks which are members of the Federal Reserve System are prohibited from purchasing any corporate stocks, presumably because Congress felt that stocks are not suitable investments for such banks. Obviously, however, an employee's pension trust or profit-sharing plan established by a bank and subject to control by the bank's management could be utilized to evade this prohibition if the trust or plan may invest its funds in corporate stocks without limitation. Where a bank has even such an indirect proprietary interest in other corporations, there is, of course, the ever present possibility that the bank's management may become so actively concerned with the financial soundness of such corporations as to result in a conflict of interest which might adversely affect the bank's depositors and the public.

The Board feels, therefore, that restrictions upon investments in corporate stocks by pension trusts or employees' profit-sharing plans of banking institutions should apply, not only to future investments, but also to existing holdings of corporate stocks, and that any such pension trust or profit-sharing plan which now holds stock in excess of the statutory limitation should be required within a reasonable period to dispose of its excess holdings.

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The Board believes also that the limitations should apply, not only to investments in the stock of other corporations, but also to the purchase or holding of the stock of the banking institution establishing such an employee's pension trust or profit-sharing plan. Where the trustees of the pension trust or profit-sharing plan are appointed by the directors of the bank or subject to their control, purchase of the bank's stock by the trust or plan provides a means by which the management of the bank may perpetuate its own existence and control. In addition, acquisition of the establishing bank's stock by the pension trust would result in a reduction in the already relatively small "outside" ownership interest in the bank, as distinguished from the interest of depositors, and would thereby tend to lessen the responsibility of the bank's management in its use of the large amounts of depositors' funds held by the bank.

Not only would the Board favor the stricter limitations indicated above, but it would also prefer that, both as to stock of other corporations and stock of the establishing bank, the maximum amount be set at 5 per cent rather than 10 per cent of the stock of any single issuer as provided in the pending tax bill.

Some of the considerations above mentioned may be equally applicable to nonbanking corporations. As previously indicated, however, the Board is interested in this matter because of its responsibilities in the field of bank supervision and because of the important role which banking institutions play in the maintenance of a sound economy. Accordingly, the Board recommends that consideration be given to such appropriate changes as may be necessary to make limitations of the kind provided by section 505 of the pending tax bill applicable to present holdings as well as future purchases of corporate stocks by bank pension trusts and profit-sharing plans and applicable also to purchases of stock of the establishing bank as well as stock of other corporations.

Messrs. Sloan and Hackley then withdrew from the meeting and Mr. Riefler, Assistant to the Chairman, entered the room.

As indicated at the meetings on April 28 and 29, 1954, Governor Robertson and members of the staff had proceeded to draw up a revised plan

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for relocating and carrying on the operations of the Board in the event of an enemy attack, and copies thereof had been sent to all of the members of the Board prior to this meeting.

During a discussion of the revised plan, Chairman Martin and Governor Robertson informed the Board of inquiries they had received from representatives of the Office of Defense Mobilization regarding steps that might be taken in the field of credit policy in the event of enemy attack or military operations involving the United States.

At the conclusion of the discussion, unanimous approval was given to the revised plan for carrying on the Board's operations in the event of an enemy attack. In this connection, unanimous approval also was given to: (1) a letter for the signature of the Chairman to the Honorable Arthur S. Flemming, Director, Office of Defense Mobilization, Washington, D. C., transmitting copies of the revised plan; (2) a letter to the Presidents of all Federal Reserve Banks transmitting copies of the revised plan and the letter to Mr. Flemming; (3) a memorandum from the Secretary of the Board to Division Heads transmitting and discussing the revised plan.

Messrs. Thurston and Bethea then withdrew from the meeting.

At the request of the Board, Governor Evans made a statement in which he reviewed the status of building construction and alteration programs at the various Federal Reserve Banks and branches.

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There were presented proposed telegrams to the Federal Reserve Banks of New York, Chicago, St. Louis, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of St. Louis on May 17, by the Federal Reserve Bank of San Francisco on May 19, and by the Federal Reserve Banks of New York and Chicago on May 20, 1954, 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 present:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on May 20, 1954, were approved unanimously.

Memorandum dated May 7, 1954, from Mr. Carpenter, Secretary of the Board, recommending that Kathryn H. Fortunato, Clerk-Stenographer in the Division of Administrative Services, be transferred to the Office of the Secretary as Minutes Clerk, with no change in her present basic salary of \$2,950 per annum, effective as of the date she reports for duty in the Office of the Secretary.

Approved unanimously.

Memoranda from appropriate individuals concerned recommending that the basic annual salaries of the following employees be increased in the amounts indicated, effective May 23, 1954:

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<u>Name and Title</u>	<u>Division</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
	<u>Research and Statistics</u>		
Joyce T. Fones, Clerk-Typist		\$3,030	\$3,110
Kathryn E. Ridgway, Clerk		3,255	3,335
	<u>International Finance</u>		
Rosa Ernst, Economist (Editorial)		5,310	5,435
	<u>Examinations</u>		
C. R. Dow, Jr., Assistant Federal Reserve Examiner		3,410	3,795
J. C. Smith, Federal Reserve Examiner		9,800	10,000
	<u>Bank Operations</u>		
Barbara Bauman, Clerk		3,335	3,415
David C. Crockett, Analyst		5,060	5,185
Mary M. Durkan, Technical Assistant		6,140	6,340
Jewell B. Smith, Secretary		4,795	4,920
	<u>Administrative Services</u>		
John M. Pope, Guard		2,750	2,830
Hubert R. Dunn, Assistant Painter		3,200	3,280

Approved unanimously.

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Letter to Mr. Erickson, President, Federal Reserve Bank of Boston, reading as follows:

Reference is made to your letter of May 11, 1954, in which you request approval of a new salary structure for the Federal Reserve Bank of Boston under the Plan of Job Classification and Salary Administration which has been approved by your Board of Directors.

The Board of Governors approves the following minimums and maximums for the respective grades at the Federal Reserve Bank of Boston effective May 12, 1954:

<u>Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
1	\$1800.	\$2400.
2	1950.	2610.
3	2100.	2820.
4	2250.	3030.
5	2460.	3300.
6	2700.	3660.
7	2960.	4000.
8	3300.	4440.
9	3750.	5050.
10	4220.	5680.
11	4780.	6420.
12	5450.	7350.
13	6230.	8370.
14	7150.	9650.
15	8350.	11250.
16	9550.	12850.

The Board approves the payment of salaries to the employees, other than officers, within the limits specified for the grades in which the positions of the respective employees are classified. It is assumed that all employees whose salaries are below the minimum of their grades as a result of the structure increase will be brought within the appropriate range as soon as practicable and not later than August 15, 1954.

Approved unanimously.

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Letter to Mr. Wysor, Deputy Chairman, Federal Reserve Bank of Richmond, reading as follows:

The Board of Governors approves the payment of salary to Mr. J. M. Nowlan as Cashier of the Federal Reserve Bank of Richmond for the period May 16, 1954, through December 31, 1954, at the rate of \$12,500 per annum, which is the rate fixed by the Board of Directors as indicated in your letter of May 14, 1954.

Approved unanimously.

Letter to Mr. Howard C. Sheperd, Chairman of the Board, International Banking Corporation, 55 Wall Street, New York, New York, reading as follows:

There is enclosed a copy of the report of examination of the New York Office and the International Airport Agency of International Banking Corporation, New York, New York, made as of December 17, 1953 by examiners for the Board of Governors of the Federal Reserve System. The figures for the London Branch shown in the consolidated statement of condition, as well as the figures for Societe Elysees-Boetie and Societe de Construction et d'Exploitation aux Champs-Elysees, were supplied by the New York Office.

As may be noted on page 8 of the report, the examiner has reported that your Corporation held 2,997 shares of stock of The First National Bank and Trust Company of Ossining, Ossining, New York, carried on your books at \$173,127.75 on examination date and that during the course of the examination additional shares were acquired. The call report of your Corporation as of December 31, 1953 shows that your holdings had been increased to 3,029 shares, carried at \$175,002.95. The purchase of these shares under the circumstances described by the Board's examiner appears to be in no way related to your Corporation's international or foreign banking business.

It is requested, therefore, that your Corporation as soon as practicable dispose of any and all shares of stock now held of The First National Bank and Trust Company of Ossining.

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After this report has been presented to your Board of Directors for its consideration, it will be appreciated if you will advise as to your present investment in such stock and the number of shares held, together with information as to your plans for its disposition.

Approved unanimously, for
transmittal through the Federal
Reserve Bank of New York.

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

Reference is made to your letter of May 11, 1954, concerning a request of the Security Trust and Savings Bank of San Diego, San Diego, California, for an extension of time within which it may establish a branch in Vista, California.

In view of the circumstances and your favorable recommendation, the Board of Governors hereby approves an extension to July 1, 1954, of the time within which the branch may be established. Please notify the bank of this action.

Approved unanimously.

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

From time to time questions have arisen at the Board's offices, in connection with the subject of reserve balances and requirements, as to what policies and practices are followed by the Federal Reserve Banks with respect to analysis adjustments in reserve balances of member banks for the purpose of eliminating apparent deficiencies in reserves. Operating letters of various Reserve Banks mention allowances for currency in transit, noncash collections (of \$1,000 or more, or with no amount specified), and unspecified other transactions.

In order that the Board may be informed as to the current practices at all Reserve Banks, it will be appreciated if you will furnish the Board the information called for by the enclosed outline.

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It will be helpful if you will comment as to the reasons why, in your opinion, the various types of adjustments should or should not be made. It should be understood, of course, that the listing of specific types of reserve analysis adjustments in the enclosed outline is not to be taken as an indication that they ought or ought not to be made by all Federal Reserve Banks. They are listed merely to facilitate summarization of the desired reports.

Approved unanimously.

Letter for the signature of the Chairman to the Honorable Charles E. Bennett, House of Representatives, Washington, D. C., reading as follows:

In accordance with the request contained in your letter of May 10, 1954, I am glad to enclose a copy of the most recent Annual Report of the Retirement System of the Federal Reserve Banks. At the top of page 16 of this report, there is a table showing the average yield on the various types of investments held as of February 28, 1953, and comparable yields by types are also given as of February 29, 1952.

Your letter mentions that the average yield on all investments of the Retirement System of the Federal Reserve Banks for the year ending February 29, 1952 was given in the Report of the Joint Committee on Railroad Retirement Legislation (Senate Report No. 6, Part I, January 9, 1953), as 3.28 per cent. That figure was based on the average of investments held during the entire fiscal year, while the figure of 3.33 per cent shown for February 29, 1952 in the table at the top of page 16 of the latest annual report under the caption "Total Average on All Securities" is the yield on investments held as of the end of the fiscal year.

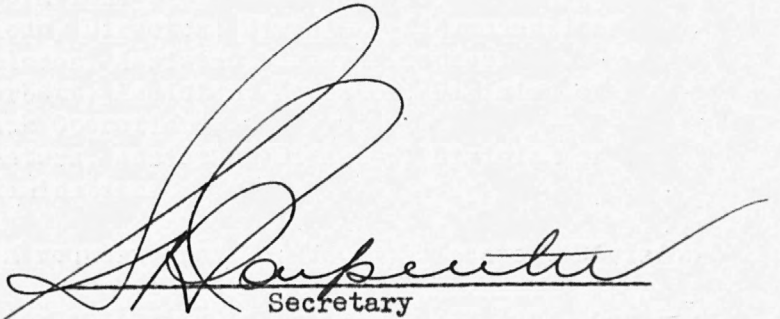
With respect to your request for the average yield on investments of the retirement fund for each of the previous years during which the System has been in operation, your attention is called to the chart at the bottom of page 16 which shows the yield on book value of investments as of the close of each fiscal year since the System was established on March 1, 1934.

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The other question contained in your letter relates to the experience of the retirement system with respect to investments in preferred and common stocks. We are referring this question to the Office of the Retirement System which is located at 33 Liberty Street, New York 45, New York (the building of the Federal Reserve Bank of New York), with a request that that office furnish us with a statement regarding this experience. We shall be glad to transmit this additional information to you as soon as it is received.

Approved unanimously.


Secretary