

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, May 28, 1954. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Young, Director, Division of Research and Statistics
Mr. Sloan, Director, Division of Examinations
Mr. Johnson, Controller
Mr. Solomon, Assistant General Counsel
Mr. Myrick, Assistant Director, Division of Bank Operations
Mr. Sprecher, Assistant Director, Division of Personnel Administration
Mr. Youngdahl, Assistant Director, Division of Research and Statistics
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Hackley, Assistant General Counsel
Mr. Cherry, Legislative Counsel
Mr. Molony, Special Assistant to the Board

The following requests for authority to travel on official business of the Board were presented:

Mr. Young, Director, Division of Research and Statistics. To travel to Princeton, New Jersey, on June 4-5, 1954, to attend a planning session of the Research Advisory Board of the Committee for Economic Development.

Miss Burr, Assistant Director, Division of Research and Statistics. To travel to Athens, Ohio, and return, on June 26-29, 1954, to deliver two papers at the Third Ohio Workshop on Economic Education at Ohio University.

Mr. Myrick, Assistant Director, Division of Bank Operations. To travel to New York and return on June 3-4, 1954, to attend a meeting of the Presidents' Conference Subcommittee on Destruction of Records.

Approved unanimously.

5/28/54

-2-

Before this meeting there had been circulated among the members of the Board a draft of a statement to be submitted by Chairman Martin to the House Committee on Government Operations on June 2, 1954, in connection with his appearance before that Committee regarding H. R. 7602, a bill to direct the Comptroller General to audit the Board of Governors of the Federal Reserve System, the Federal Open Market Committee, and the Federal Reserve Banks. There was a general discussion of the draft during which several suggestions for revision were made.

At the conclusion of the discussion, the revised draft was approved unanimously.

At this point Messrs. Myrick, Hostrup, Cherry, and Molony withdrew and Messrs. Thomas, Economic Adviser to the Board, and Koch, Chief, Banking Section, Division of Research and Statistics, joined the meeting.

Governor Mills referred to the report on the discount mechanism prepared by the System Committee on the Discount and Discount Rate Mechanism, of which he is Chairman, stating that comments submitted by the Federal Reserve Banks regarding that report and the proposed revision of Regulation A, Discounts for and Advances to Member Banks by Federal Reserve Banks, had been summarized in a memorandum, copies of which had been distributed to all members of the Board under date of May 21, 1954. Governor Mills reviewed the history of the study briefly, after which, at his request, Mr. Youngdahl summarized the comments made by the Federal

5/28/54

-3-

Reserve Banks concerning the proposed revision of Regulation A and Mr. Koch commented in some detail regarding the changes made in the light of the comments of the Reserve Banks in the proposed revision of the regulation, including the preparation of a suggested "foreword" to accompany, but not to be a formal part of, the regulation.

During the ensuing discussion, Governor Mills expressed the view that the proposed foreword should give broad guidance to the Federal Reserve Bank officers administering the discount function, as well as to member banks, and at the same time allow sufficient administrative flexibility in the Federal Reserve Banks to enable them to adapt discounting practices to different circumstances that might apply. Governor Mills also suggested that, without attempting to determine a firm time schedule, it might be desirable to think in terms of having reached tentative conclusions as to the form of the revision prior to the next meeting of the Presidents' Conference so that the Board might discuss the matter with the Presidents at that time.

Chairman Martin suggested that further consideration be given to the proposed revision of the regulation at a meeting to be held on Thursday, June 3, 1954, or at some other early date.

This suggestion was approved unanimously.

During the foregoing discussion, Mr. Thurston withdrew from the meeting and at this point Messrs. Solomon, Hackley, and Koch left the room.

5/28/54

-4-

Chairman Martin referred to the action of the Board on March 22, 1954, in approving the loan of the services of Mr. Noyes, Assistant Director of the Division of Research and Statistics, to assist Mr. Clarence Francis, Chairman of the Board of General Foods Corporation and a Class B Director of the Federal Reserve Bank of New York, in connection with a special study he was making for the President regarding the handling of surpluses of various commodities. Chairman Martin said that under the earlier action Mr. Noyes was scheduled to resume his regular duties at the Board on June 1 but that Mr. Francis had called him on the telephone and requested that, for reasons which Chairman Martin outlined, Mr. Noyes be permitted to continue with his present assignment for a period that would not extend beyond June 30, 1954. Chairman Martin suggested that under the circumstances Mr. Noyes be authorized to continue as assistant to Mr. Francis for a period that would not extend beyond June 30 with the understanding that he would return to his work at the Board before that time if Mr. Francis' work was completed earlier.

This suggestion was approved
unanimously.

Chairman Martin stated that he had received a letter dated May 21, 1954, from Mr. Alonzo G. Decker, Jr., Class C Director of the Federal Reserve Bank of Richmond, who had been requested by Chairman Woodward of that Bank to suggest names of individuals who might be appointed by the Board to fill the vacancy on the Board of Directors of the Baltimore Branch.

5/28/54

-5-

Among three names submitted, Mr. Decker suggested that Mr. Theodore E. Fletcher, Sr., Senior Partner, Albert W. Sisk & Son, Preston, Maryland, would be his first choice.

Following discussion, it was agreed unanimously that Chairman Woodward should be requested to ascertain in the usual manner whether Mr. Fletcher would accept appointment as a director of the Baltimore Branch for the unexpired portion of the term ending December 31, 1956, with the understanding that if Mr. Fletcher's response was favorable, the appointment would be tendered.

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Cleveland, Richmond, Atlanta, St. Louis, Minneapolis, Kansas City, and Dallas stating that the Board approves the establishment without change by the Federal Reserve Banks of Boston and St. Louis on May 24, by the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, Minneapolis, Kansas City, and Dallas on May 27, 1954, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Governor Mills referred to a letter received from Mr. Wurts, Chairman of the Retirement Committee, Retirement System of the Federal Reserve Banks, under date of May 11, 1954, regarding a suggestion made by the New York office of the Internal Revenue Service that section 9 of the Rules and Regulations of the Retirement System of the Federal Reserve Banks be amended to limit the types of payments which could be made by the Federal Reserve Banks for the purpose of granting special

5/28/54

-6-

additional benefits under the Retirement System. He stated that he was trying to arrange a meeting in New York on Thursday, June 3, to discuss this question and that if the arrangements could be completed, he and Mr. Solomon, Assistant General Counsel, would attend the meeting in New York that day.

None of the members of the Board who were present indicated any disagreement with the procedure suggested by Governor Mills and the necessary travel for Mr. Solomon was approved accordingly.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on May 27, 1954, were approved unanimously.

Memorandum dated May 25, 1954, from Mr. Carpenter, Secretary of the Board, recommending that the resignation of Margaret T. Notter, Index Clerk in the Office of the Secretary, be accepted effective June 3, 1954.

Approved unanimously.

Letter for the signature of the Chairman to Mr. Hodgkinson, Chairman, Federal Reserve Bank of Boston, reading as follows:

This letter is in response to yours of May 19, 1954, in which you forward the recommendations of the board of directors of your Bank with respect to changes in the law relating to reserve requirements of member banks.

5/28/54

-7-

This whole problem is under active consideration at the present time both as regards the situations which might call for further action by the Board under existing law and the proposals that should be made to Congress for changes in the law. The Board appreciates the views of your directors in this connection and they will be given full consideration in the work being done here.

As you know, a study of bank reserve requirements is being undertaken by the American Bankers Association under the direction of Dr. Sherman Adams, Deputy Manager of the Association. The Board has indicated its agreement that such a study should be made because it feels that the matter is of such importance that it should have continuous consideration by the Board of Governors, the Federal Reserve Banks, and member banks. It is our hope that a legislative proposal can be prepared for presentation to the Congress early in the next session.

Approved unanimously.

Letter to Mr. Young, Chairman, Conference of Presidents of the Federal Reserve Banks, c/o Federal Reserve Bank of Chicago, reading as follows:

In view of the recent admission to membership of the City National Bank of Anchorage, Alaska, and the subsequent announcement by nonmember banks in Anchorage that they will hereafter remit at par, the Federal Reserve Bank of San Francisco has expressed the view that it would be desirable for it to receive for collection cash items drawn on such nonmember par remitting banks in Anchorage as well as non-cash items drawn on or payable at or through such banks.

There is enclosed a copy of a letter from Mr. Earhart to the Board dated May 17, 1954, describing the circumstances which have given rise to this question and setting forth the reasons for which the Federal Reserve Bank of San Francisco recommends that, if possible, the law and the Board's regulations be construed so as to permit the collection of the items in question. There is also enclosed a copy of a report made by Mr. Leisner of the Seattle Branch of the Federal Reserve Bank of San Francisco regarding the recent convention of the Alaska Bankers Association which he attended.

5/28/54

-8-

The Board believes that this is a matter of System interest which warrants consideration by all of the Federal Reserve Banks. Primarily, it appears to involve questions of policy. While Mr. Earhart's letter recommends only the collection of items payable in a city in Alaska in which a member bank is located, it is believed that the collection of such items would raise the broader question whether the Federal Reserve Banks should receive for collection items payable in other parts of Alaska and also in Hawaii, Puerto Rico, and perhaps other insular possessions where the items are drawn on or payable at par remitting nonmember banks.

In addition, the collection of items payable in the Territories and insular possessions would involve certain legal questions under the law and the Board's Regulations J and G; and there is enclosed a memorandum briefly reviewing the legal situation. As indicated in the memorandum, changes in the Regulations, as well as the collection circulars of the Reserve Banks, would apparently be necessary before the collection of such items could be undertaken.

In the circumstances, the Board believes that the matter should be considered by the Conference of Presidents and that, in view of the legal and perhaps operational questions involved, it may be desirable to refer the matter to the Committee on Collections and Accounting. Since it appears that there may be need for prompt determination of the question with respect to items payable in Anchorage, it is suggested that consideration might be expedited by obtaining the views of the Presidents of all Federal Reserve Banks and, possibly, by referring any technical or drafting questions to the Subcommittee on Collections or the Subcommittee of Counsel on Collections. With this possibility in mind, copies of this letter and of its enclosures are being sent to all Federal Reserve Banks for their information at this time.

Approved unanimously.


Secretary