

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, June 22, 1954. The Board met in the Board Room at 11:00 a.m.

PRESENT: Mr. Martin, Chairman  
Mr. Szymczak  
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. Allen, Director, Division of Personnel Administration  
Mr. Solomon, Assistant General Counsel  
Mr. Cherry, Legislative Counsel

In accordance with the understanding at the meeting on April 15, 1954, that the matter would be considered again by the Board prior to the next meeting of the Presidents' Conference, consideration was given to the question whether the handling of postmasters' deposits by the Federal Reserve Banks should be on a reimbursable basis and, if so, whether the Board would favor the Treasury Department making a special request for an appropriation to cover expenses incurred by the Federal Reserve Banks subsequent to the pilot operations which were carried on at three of the Banks and which it was understood would be on a nonreimbursable basis.

Governor Szymczak recalled that on April 15 he reported to the Board that the Treasury Department had indicated agreement in principle that the Federal Reserve Banks should be reimbursed and had also indicated

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that the Department would consider requesting a special appropriation for the purpose. Governor Szymczak said that, while he understood it to be the view of the majority of the Federal Reserve Bank Presidents that the Banks should be reimbursed, he questioned the advisability of requesting a special appropriation at this time.

Upon being asked by the Board for his views, Mr. Leonard, who had served as an associate member of the Presidents' Conference Special Subcommittee on the Deposit Proposal of the Post Office Department (which had rendered a report on December 4, 1953, and a supplemental report on February 15, 1954) said that his position on the question of reimbursement differed from that of the majority of the members of the subcommittee. Mr. Leonard's view was that the handling of the postmasters' deposits might be considered essentially a depositary function of the type normally performed for the Treasury Department without reimbursement and that therefore the question of reimbursement should not be raised in this case. In the circumstances, Mr. Leonard said, he would be particularly reluctant to see the Treasury make a special request for an appropriation. In further comments, Mr. Leonard expressed the opinion that the basic problem was the expansion of fiscal agency and depositary activities of the Federal Reserve Banks, and he suggested that this question should be discussed fully by the Joint Fiscal Agency Policy Committee with a view to considering what policy guides should be established.

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Mr. Vest, General Counsel, also had been an associate member of the Presidents' Conference subcommittee, and it was indicated that Mr. Vest's views differed from Mr. Leonard's on the question of reimbursement in this instance. Mr. Solomon said that from talking to Mr. Vest he believed it to be the latter's position that there would be nothing inappropriate about the Treasury requesting funds with which to reimburse the Federal Reserve Banks for costs incurred in handling the postmasters' deposits, and that Mr. Vest appeared to be inclined, as he was, to feel that the Federal Reserve probably would be in a safer position if the Reserve Banks were to get reimbursement for performing functions of this kind. Mr. Solomon also brought out that it was a matter of opinion whether the handling of the postmasters' deposits was or was not a depository function. He added that, even conceding it to be a depository function, it was one involving more detailed work on the part of the Reserve Banks than is ordinarily the case.

Mr. Leonard said he thought Mr. Vest also had in mind that the reimbursable feature represented something in the nature of an automatic deterrent against requests that the Federal Reserve Banks undertake additional fiscal agency or depository activities.

During the course of the foregoing comments Governor Vardaman joined the meeting.

Following additional discussion, Governor Szymczak suggested that the questions to be taken up with the Presidents seemed to be whether the Presidents still favored placing the operation on a reimbursable basis and, if so,

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whether they would prefer to have the Treasury ask for an appropriation in a deficiency bill or to absorb the expense for this fiscal year and have the Treasury seek appropriations for ensuing years.

Governor Robertson stated that he did not consider the question of reimbursement for handling the postmasters' deposits very important in itself. What he did consider important was that steps be taken to obtain legislation which would give the Federal Reserve a "veto power" in connection with proposals for transferring additional functions to the Federal Reserve Banks from various agencies of the Government. He expressed the opinion that there was merit in carrying on certain functions for Government agencies without charge, but that there was also merit in having a mechanism which would insure against the Federal Reserve Banks being assigned additional operations of a fiscal agency nature without an opportunity for full consideration of the advisability of the move. He did not favor making an issue of the question of reimbursement for handling postmasters' deposits except insofar as it might be a consideration in obtaining legislation of the type which he had indicated.

Governor Vardaman said his thinking was along the lines Governor Robertson had stated so far as the question of the Federal Reserve having a "veto power" was concerned, with the understanding, of course, that the "veto power" would not apply when the Reserve Banks were directed to perform certain services by executive order. However, in the light of recent discussions concerning free services performed by the Federal Reserve Banks,



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he disagreed with Governor Robertson's view that the question of reimbursement for handling the postmasters' deposits was not important. From the standpoint of the principle involved, he favored asking the Treasury for reimbursement.

Following further discussion, Chairman Martin suggested that on the basis of the views expressed at this meeting it would be desirable to have a round-table discussion at the joint meeting with the Federal Reserve Bank Presidents tomorrow in order to ascertain the views of the Presidents on the question of reimbursement, and there was agreement with Chairman Martin's suggestion.

Mr. Leonard then withdrew from the meeting.

Pursuant to Chairman Martin's request at the meeting on June 17, 1954, a draft of letter for his signature had been prepared in response to Congressman Patman's letter of June 16 regarding the examination reports of the Federal Reserve Banks which were delivered to the House Banking and Currency Committee on June 14, 1954.

Following a discussion, during which certain minor changes in wording were suggested, unanimous approval was given to a letter to Congressman Patman reading as follows, with the understanding that copies would be sent to Congressman Wolcott, Chairman of the Committee on Banking and Currency, and Congressman Hoffman, Chairman of the Committee on Government Operations, for their information:

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This refers to your letter of June 16, 1954, regarding the examination reports of the Federal Reserve Banks which were delivered to the House Banking and Currency Committee with my letter of June 14, 1954.

You state that at a meeting of the House Banking and Currency Committee on June 15 you asked the Chairman, Mr. Wolcott, to present for passage by the Committee a resolution which you offered which would state that the Committee "requests the General Accounting Office to review the examination reports of the 12 Federal Reserve Banks and the Open Market Committee of the Federal Reserve System ...", and that it was decided that the Chairman would confer with me before proceeding further. You also refer to my letter of June 14 forwarding the examination reports, and to a meeting on June 14, in the Banking and Currency Committee Room at which Mr. Cherry, of the Board's staff, was present among others.

My letter of June 14 states my impression of the understanding under which the examination reports were to be delivered to the House Banking and Currency Committee, and I regret if for any reason you may have had any different impression. With respect to my conferring with the Chairman of the House Banking and Currency Committee regarding this matter, I will, of course, be glad to confer with him at any time at his convenience.

Prior to this meeting there had been sent to the members of the Board copies of a memorandum from Governor Robertson dated June 16, 1954, relating to the confidential character of the System's affairs. The background of the matter, as explained in the memorandum, was that at the joint meeting of the Board with the Presidents of the Federal Reserve Banks on March 3, 1954, reference was made to questions that had been directed to Chairman Martin during hearings before the Congressional Joint Committee on the Economic Report on February 3, 1954, with respect to the possibility of Federal Reserve Bank personnel benefiting from inside information on System open market operations. Following that discussion,

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the Presidents were requested to forward to the Board copies of the rules and regulations of the respective Reserve Banks relating to this matter so that those rules and regulations would be available if the question should come up again. Attached to Governor Robertson's memorandum was a draft of letter from Chairman Martin to the Chairmen of all Federal Reserve Banks reading as follows:

At the March meeting of the Presidents' Conference reference was made to questions asked of me at a hearing before the Joint Committee on the Economic Report on February 3, 1954, regarding the possibility of Federal Reserve Bank personnel profiting from inside information on System open market operations. It was suggested at that time that (1) the Presidents review the testimony and make sure that proper safeguards were in effect at their respective Banks, and (2) the Banks forward to the Board copies of their rules relating to such matters so that they might be available in the event the question should come up again.

The replies received from the Federal Reserve Banks substantiate the fact that at all of the Federal Reserve Banks it is the understanding of officers and employees who might have access to confidential information that any use of such information for personal profit or for any other improper purpose, either directly or through some other individual, would result in immediate dismissal or other appropriate disciplinary action. As you know, it has been the uniform understanding for many years, as stated in the Board's letter of March 24, 1948 (F.R.L.S. #9054), that officers and employees of a Federal Reserve Bank shall refrain from being placed in any position which might embarrass the Reserve Banks in the conduct of any of its operations or result in questions being raised as to the independence of their judgment or their disinterestedness in the discharge of their official responsibilities or their ability to perform satisfactorily all of the duties of their positions.

The steps taken by the Federal Reserve Banks to insure against improper use of confidential information are not uniform and, with the thought that your Board of Directors might like to have the information available, there is attached a summary



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list of the points covered in the replies from the Federal Reserve Banks referred to above.

It is the understanding of the Board that your directors have taken or will take such action as may be necessary to assure that this matter will be kept before all of the directors, officers, and employees of your Bank who might be affected thereby so that the very satisfactory record made by the Banks in the past may be maintained. If your Bank does not already follow such a procedure, you might wish to consider an arrangement under which full information as to the understanding at the Bank on this subject would be given to each new director, officer, or employee who might have access to confidential information, at the time he assumes his duties. You might wish also to call attention to the matter at stated intervals so that it will not be overlooked.

A copy of this letter is being sent to the President of your Bank.

Governor Robertson's memorandum also contained suggestions for steps designed to insure against any misunderstanding at the Board with respect to the need for maintaining the confidential character of the Board's affairs and with respect to financial transactions and outside business activities of members of the staff.

Governor Robertson recommended approval of the letter to the Federal Reserve Bank Chairmen and the sending of copies to the Federal Reserve Bank Presidents, as indicated in the letter. He suggested, however, that the proposed procedure at the Board be held over for consideration at another meeting because he understood that Governor Mills had certain questions that he would like to raise.

In response to inquiries by Governor Vardaman, Chairman Martin and Governor Robertson said that the letter proposed for transmittal to the Federal Reserve Bank Chairmen was intended merely to bring the problem



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to the attention of the management of the Federal Reserve Banks and to summarize the rules which had been found to be in effect at one or more of the Banks so that each Reserve Bank might check and satisfy itself that its rules were adequate.

Governor Vardaman said that if that was the intent in sending the letter, he would not object to it. His general position, however, was that he questioned the desirability and feasibility of obtaining the results sought to be accomplished by regulatory means.

Thereupon, the letter to the Chairmen of the Federal Reserve Banks was approved unanimously in the form set forth above, with the understanding that the question of procedures which might be put into effect at the Board would be considered at another meeting.

Messrs. Allen and Cherry then withdrew from the meeting.

There was presented a request from Mr. Masters, Assistant Director, Division of Examinations, for authority to travel to New York, New York, on official business of the Board during the period June 27-30, 1954, to review the operations of the Bank Examinations Department of the Federal Reserve Bank of New York.

Approved unanimously.

Governor Robertson stated that, if agreeable to the Board, he would comment at the joint meeting with the Presidents tomorrow, for the information of the Presidents, regarding plans for actions on the part of

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the Federal Reserve System which would be contemplated in the event of an enemy attack. He also proposed to comment on the program for storage of currency outside Federal Reserve Bank and branch cities for use in event of a national emergency so that the Presidents might have an opportunity to offer their comments. Governor Robertson also read a memorandum which he had prepared for possible presentation at the joint meeting regarding currency and coin services rendered by the various Federal Reserve Banks and further studies that might be made by the Banks in the interest of greater uniformity.

It was understood that Governor Robertson would make statements on these matters at the joint meeting along the lines which he had suggested.

Regarding the classification of member banks for the purpose of voting in the election of Federal Reserve Bank directors, Governor Robertson said that, if the Presidents should raise the question, he would state that in response to the Board's request all of the Federal Reserve Banks had submitted comments regarding the possible reclassification of member banks for voting purposes, that these comments were under consideration, and that the Board should be in a position to act in the near future.

With respect to the study of consumer credit regulation, Governor Robertson said that, if the Presidents should inquire how this study was proceeding, he intended to say that, in accordance with the suggestion of one of the Reserve Banks, a staff committee was preparing a draft of a

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proposed regulation under which consumer credit would be regulated at the wholesale level and that copies of this draft would be sent to the Presidents of all Federal Reserve Banks for their comments regarding such an approach.

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

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

Your wire June 21. The Board approves granting of loan or loans by your Bank to Banque Centrale de la Republique de Turquie not to exceed \$10 million in the aggregate at any one time outstanding on the following terms and conditions:

(A) Such loan or loans to be made up to 98 pct. of the value of gold bars set aside in your vaults under pledge to you.

(B) Any such loan to be made not later than July 31, 1954 and to run for three months but to be repayable at the borrower's option at any time before maturity.

(C) Each such loan to bear interest from the date such loan is made until paid at the discount rate of your bank in effect on the date on which such loan is made.

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

Approved unanimously.

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

This refers to your letter of June 8, 1954 regarding the applicability of section 32 of the Banking Act of 1933

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to the services of Mr. Alfred B. Averell as director of The Fort Neck National Bank of Seaford and as partner in the firm of Bache & Company, New York, N. Y.

Your letter and its enclosures show that for the fiscal years ending January 31, 1952, 1953 and 1954 the dollar volume of the underwriting and distributing business of Bache & Company was \$17,644,537, \$33,071,793 and \$43,207,430, respectively; that the gross income of the firm from that business for those years was \$240,876, \$594,652 and \$710,961, respectively; and that the percentage of the firm's total gross income derived from this type of business was 1.74%, 4.84% and 5.34%, respectively. It also appears that the firm maintains a separate department for handling this type of business.

As you point out, the Board has considered several similar cases where the dollar volume and the percentage of gross income were approximately the same or less than in this case, and felt that section 32 was applicable. You state that it is your view, in which your counsel concurs, that section 32 is applicable to the services of Mr. Averell, and the Board is in agreement with this view.

You have also forwarded a copy of Mr. Averell's letter of June 9, 1954, in which he urges that section 32 should not be regarded as applicable because underwriting and distributing are far from being the principal business of the firm and also because the firm does not sell any securities to the bank in which the firm has been interested as underwriter or distributor. These factors have been present in other cases which the Board has considered, and it will probably be of interest to Mr. Averell to know that they were also present in a case decided by the Supreme Court of the United States in 1947 known as Board of Governors v. Agnew, 329 U. S. 441. In that case the Supreme Court decided that the interlocking relationships were prohibited by section 32 although the firm had done no business at all with the bank during the time the respondents were employed by the firm, and although underwriting and distributing were not the principal business of the firm but were merely a "substantial" (as distinguished from an "unsubstantial") part of its business.

Approved unanimously, together  
with a letter to Mr. Koppang, First  
Vice President, Federal Reserve Bank  
of Kansas City, reading as follows:



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This refers to your letter of March 9, 1954 and your subsequent telegrams of April 7 and April 15 regarding the applicability of section 32 of the Banking Act of 1933 to the services of Mr. Henry E. Gray as director of the First National Bank of Bartlesville, Oklahoma, and also manager of the Tulsa, Oklahoma branch of Bache & Company, New York City.

As you were advised in the Board's letter of March 17, 1954, the status of Bache & Company under the statute was being reviewed by the Federal Reserve Bank of New York. Subsequently the information needed in cases of this kind was received from Bache & Company by the Federal Reserve Bank of New York. It showed that for each of the fiscal years ending January 31, 1952, 1953 and 1954, the dollar volume of the underwriting and distributing business of Bache & Company was considerably in excess of \$10,000,000, and had increased substantially in each of those years; and that the gross income of the firm from this type of business had likewise increased substantially during these three years, so that for the fiscal year ending January 31, 1954 it was more than 5% of the total gross income of the firm. It also appeared that the firm maintains a separate department for handling this type of business.

The Board has considered several similar cases concerning section 32 where the dollar volume and the percentage of gross income were approximately the same or less than in this case, and has felt that section 32 was applicable. It is the view of the Board that section 32 is likewise applicable to the services of Mr. Gray.

The Federal Reserve Bank of New York also forwarded to the Board a letter from the partner of Bache & Company whose services as a bank director in the New York Federal Reserve District were being reviewed. He urged that section 32 should not be regarded as applicable because underwriting and distributing are far from being the principal business of the firm and also because the firm does not sell to the bank of which he is a director any securities in which the firm has been interested as underwriter or distributor. However, these factors have been present in other cases which the Board has considered, and they were also present in a case decided by the Supreme Court of the United States in 1947 known as Board of Governors v. Agnew, 329 U.S. 441. In that case the Supreme Court decided that the interlocking relationships were prohibited by section 32 although the firm had done no business at all with the bank during the time the respondents were employed by the firm, and although underwriting and distributing were not the principal business of the firm but were merely a "substantial" (as distinguished from an "unsubstantial") part of its business.

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Letter to The Security National Bank of Trenton, Trenton, New Jersey, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of New Jersey, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers which The Security National Bank of Trenton is now authorized to exercise will be forwarded to you in due course.

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

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

Reference is made to your letter of June 8, 1954, submitting request of the McHenry State Bank, McHenry, Illinois, for permission under the provisions of Section 24A of the Federal Reserve Act to carry as an asset a maximum amount of \$150,000 representing investment in a new bank building.

It is noted that the bank actually proposes to spend approximately \$250,000 for the bank premises, but that all but \$150,000 will be eliminated by write-off.

While the proposed total investment in fixed assets appears to be heavy in relation to the bank's capital accounts, the Board of Governors, after giving due consideration to all of the factors presented, concurs in the Reserve Bank's recommendation, and approves the investment in bank premises of an amount not to exceed \$250,000, provided such bank premises are carried as an asset upon the books of the bank at a figure not to exceed \$150,000.

Approved unanimously.

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Letter to Mr. Hodge, General Counsel, Federal Reserve Bank of

Chicago, reading as follows:

This refers to your letter of June 14, 1954 forwarding copies of the opinion of the Michigan Supreme Court in the case in which your bank contested the application of a Michigan sales tax to the proceeds of business derived from sales to your bank.

It is noted that the State Supreme Court has held that the Michigan sales tax applies to the proceeds of business derived from sales to your bank, and that your bank does not plan to appeal to the Supreme Court of the United States unless the Board of Governors should feel that it should do so. In the circumstances, the Board is inclined to agree with your plan not to take such an appeal.

Approved unanimously.

Letter to the Comptroller of the Currency, Treasury Department,

Washington, D. C., reading as follows:

It is respectfully requested that you place an order with the Bureau of Engraving and Printing for printing 536,688,000 Federal Reserve notes (single units) of the 1950 Series during the fiscal year ending June 30, 1955, in the amounts and denominations shown below for the various Federal Reserve Banks:

	<u>Denomi- nations</u>	<u>Number of notes</u>	<u>Amount</u>
Boston	\$5	10,800,000	\$54,000,000
	10	18,720,000	187,200,000
	20	5,040,000	100,800,000
	50	288,000	14,400,000
	100	144,000	14,400,000
New York	5	36,000,000	180,000,000
	10	61,200,000	612,000,000
	20	17,280,000	345,600,000
	50	1,728,000	86,400,000
	100	1,152,000	115,200,000

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	<u>Denomi- nations</u>	<u>Number of notes</u>	<u>Amount</u>
Philadelphia	\$5	13,680,000	\$68,400,000
	10	18,720,000	187,200,000
	20	6,480,000	129,600,000
	50	432,000	21,600,000
	100	288,000	28,800,000
Cleveland	5	15,120,000	75,600,000
	10	19,440,000	194,400,000
	20	11,520,000	230,400,000
	50	1,008,000	50,400,000
	100	288,000	28,800,000
Richmond	5	13,680,000	68,400,000
	10	15,120,000	151,200,000
	20	12,960,000	259,200,000
	50	720,000	36,000,000
	100	432,000	43,200,000
Atlanta	5	15,120,000	75,600,000
	10	16,560,000	165,600,000
	20	8,640,000	172,800,000
	50	288,000	14,400,000
	100	288,000	28,800,000
Chicago	5	25,920,000	129,600,000
	10	41,760,000	417,600,000
	20	16,560,000	331,200,000
	50	720,000	36,000,000
	100	864,000	86,400,000
St. Louis	5	10,800,000	54,000,000
	10	10,800,000	108,000,000
	20	5,760,000	115,200,000
	50	144,000	7,200,000
	100	288,000	28,800,000
Minneapolis	5	3,600,000	18,000,000
	10	3,600,000	36,000,000
	20	2,160,000	43,200,000
	100	144,000	14,400,000
Kansas City	5	7,920,000	39,600,000
	10	7,200,000	72,000,000
	20	5,040,000	100,800,000
	50	144,000	7,200,000
	100	144,000	14,400,000



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	<u>Denomi- nations</u>	<u>Number of notes</u>	<u>Amount</u>
Dallas	\$5	6,480,000	32,400,000
	10	7,200,000	72,000,000
	20	4,320,000	86,400,000
	50	288,000	14,400,000
	100	288,000	28,800,000
San Francisco	5	16,560,000	82,800,000
	10	19,440,000	194,400,000
	20	14,400,000	288,000,000
	50	576,000	28,800,000
	100	432,000	43,200,000
Totals	5	175,680,000	878,400,000
	10	239,760,000	2,397,600,000
	20	110,160,000	2,203,200,000
	50	6,336,000	316,800,000
	100	4,752,000	475,200,000

Approved unanimously.

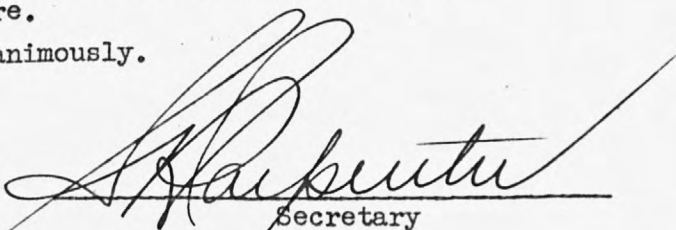
Letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., (Attention: Mr. W. M. Taylor, Deputy Comptroller of the Currency), reading as follows:

Reference is made to a letter from your office dated March 29, 1954, enclosing photostatic copies of an application to organize a national bank at St. Clair Shores, Michigan, 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 an examiner for the Federal Reserve Bank of Chicago indicates generally favorable findings with respect to the factors usually considered in connection with such proposals. Accordingly, the Board of Governors recommends approval of the application.

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.

  
Secretary