

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, June 25, 1954. The Board met in the Board Room at 10:00 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. Johnson, Controller  
Mr. Cherry, Legislative Counsel

There were distributed to the members of the Board present copies of a draft of reply to a letter addressed to the Chairman by Congressman Abraham J. Multer of New York on June 16, 1954. In his letter Mr. Multer referred to the hearings before the House Committee on Banking and Currency on May 26 and 27, 1954, concerning bills H. R. 8729 and H. R. 9143 and again inquired whether there was any formal agreement reduced to writing or any exchange of letters between the Board of Governors and Arthur Andersen & Co. with respect to the employment of Arthur Andersen & Co. to audit the accounts of the Board for the year ended December 31, 1953. Congressman Multer also requested an explanation of the differences in the amounts of the Board's operating fund as set forth in the statement appearing in the Board's Annual Report for the year 1953 and in the financial statements for the same period contained in the report of Arthur Andersen & Co., stating that these differences were not explained in

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the material appearing on pages 62-64 of the printed hearings which was submitted by the Board in response to the request of the Banking and Currency Committee.

At the request of the Chairman, Mr. Johnson discussed the letter and enclosures proposed to be sent to Congressman Multer. He also said that the reconciliation of the operating fund differences and explanation of the adjustments had been reviewed by Mr. Roy B. Mattern, Jr., of Arthur Andersen & Co., and that before sending a letter to Congressman Multer it was proposed to have Mr. Mattern read and approve it.

Following a discussion, during which changes in the draft were suggested, the letter was approved unanimously in the following form:

This letter is in reply to yours of June 16, 1954, concerning information furnished to the Banking and Currency Committee pursuant to the request of the Committee on May 27, 1954.

Your understanding is correct that there was neither a formal agreement reduced to writing between the Board and Arthur Andersen & Co. nor an exchange of letters with reference to their employment to make this audit. The oral understanding was as stated on page 32 of the hearings that Arthur Andersen & Co. should make the audit as extensive or in such a manner as appeared to them to be desirable and that the Board would not want to place any restrictions on the firm as to the scope of the audit or the manner in which it was conducted.

With regard to the difference in the amounts of the operating fund as set forth in the Statement of Income and Expenses appearing in the Board of Governors' Annual Report for the year 1953 and in the financial statements for the same period in the report of Arthur Andersen & Co., there is attached a reconciliation of these amounts, together

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with explanations of the adjustments made by Arthur Andersen & Co.

The differences to which you refer arise solely from a change in method of accounting. The statement appearing in the Board of Governors' Annual Report for the year 1953 was prepared prior to the completion of the audit of its books by Arthur Andersen & Co. During the course of the audit, that firm suggested orally that the Board's formal accounting be revised to enable them to submit a report on a full accrual basis, including provision for depreciation. Other than to effect the revised form of accounting, Arthur Andersen & Co. suggested no material adjustments in the Board's books. The attached reconciliation and explanations of the adjustments have been reviewed by Arthur Andersen & Co. Should you wish to discuss this matter with a representative of that firm, it is suggested that you call Mr. M. E. Parkinson, Resident Partner.

Mr. Johnson, who holds the position of Controller on the Board's staff, will be glad to go to your office and discuss any questions you might have with respect to the enclosed reconciliation.

There were presented proposed telegrams to the Federal Reserve Banks of Boston, New York, Cleveland, 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 June 21 and by the other six Federal Reserve Banks on June 24, 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 except Governors Evans and Vardaman present:

Memorandum dated June 23, 1954, from Mr. Leonard, Director, Division of Bank Operations, recommending that the resignation of

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Mary Frances Gifford, Statistical Clerk in that Division, be accepted effective July 16, 1954.

Approved unanimously.

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

The Board of Governors approves the payment of salary to Mr. John Edward Exter as Vice President of the Federal Reserve Bank of New York for the period September 1, 1954, through December 31, 1954, at the rate of \$22,500 per annum, which is the rate fixed by the Board of Directors of your Bank as indicated in your letter of June 17, 1954.

Approved unanimously.

Letter to the Board of Directors, Security Trust Company of Rochester, Rochester, New York, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment by Security Trust Company of Rochester, Rochester, New York, of a branch in Bath, New York, provided (a) the absorption of Farmers' & Mechanics' Trust Company, Bath, New York, is effected substantially in accordance with the plan as presented through the Federal Reserve Bank of New York (b) prior to or simultaneously with the consummation of the plan, Security Trust Company of Rochester shall increase its capital stock and surplus each to not less than \$3,203,000, in accordance with the program outlined in Mr. Farrell's letter of June 7, 1954, to the Federal Reserve Bank of New York and (c) prior formal approval of the proposed absorption and establishment of the branch is obtained from the appropriate State authorities.

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

Letter to the Board of Directors, Metamora State Savings Bank, Metamora, Michigan, stating that, subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H, the Board



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approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago.

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

Letters to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington, D. C., reading as follows:

This is in response to your communication of June 23, 1954, enclosing a facsimile of the enrolled enactment of H. R. 8729, a bill "To amend section 14 (b) of the Federal Reserve Act, as amended", and inquiring whether there is any objection to the approval of the bill by the President.

The bill would extend until June 30, 1956, the present authority of the Federal Reserve Banks to purchase Government obligations directly from the United States. Under existing law this authority will terminate on June 30, 1954.

Without this authority the Treasury and the Federal Reserve on occasions would be unable to prevent the disturbing effects on the money market of the sudden drains that occur at tax payment periods. The use of this authority prior to tax payment dates avoids creating unnecessary financial strains that would otherwise occur if the Treasury had to draw heavily on its accounts. Temporary Treasury borrowing through this means followed by prompt repayment from the proceeds of tax payments provides a smooth operating mechanism, without the abrupt money market fluctuations that would otherwise occur, and thus is helpful in the conduct of Federal Reserve policy. Use of this procedure as required by law is reported each year in detail in the Board's annual report. The Board, therefore, recommends that the bill be approved by the President.

This is in response to your communication of June 23, 1954, enclosing a facsimile of the enrolled enactment of S. 3481, a bill "To amend sections 23A and 24A of the Federal Reserve Act, as amended", and inquiring whether there is any objection to the approval of the bill by the President.

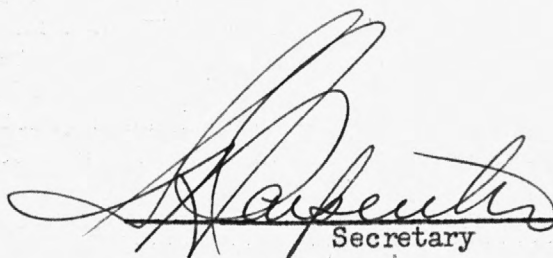
The provisions of this bill are the same as those

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contained in the draft of a bill submitted to the Board with your letter of March 23, 1954. The Board expressed its views on that draft in its letter of April 1, 1954, a copy of which is enclosed for your ready reference and files. For the reasons stated therein the Board recommends that this legislation be approved by the President.

Approved unanimously.



Secretary