

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, July 16, 1954. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
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. Vest, General Counsel
Mr. Farrell, Chief, Reserve Bank Budget and Expense Section, Division of Bank Operations

Prior to this meeting there had been sent to the members of the Board copies of a memorandum dated July 13, 1954, from the Division of Bank Operations discussing certain changes in operating procedures resulting from the contemplated enactment of Bill H. R. 9143, which would eliminate from Section 16 of the Federal Reserve Act the requirement that fit Federal Reserve notes of other Federal Reserve Banks be returned by the Bank receiving them to the Bank of issue. Attached to the memorandum was a draft of letter to the Presidents of all Federal Reserve Banks concerning this matter.

Following discussion, unanimous approval was given to a letter in the following form:

Congress has passed, but the President has not yet signed, the bill repealing the provisions of Paragraph 3, Section 16 of the Federal Reserve Act requiring that fit Federal Reserve notes of other Federal Reserve Banks be returned to the issuing Bank. It is expected that the President will sign the bill in a few days.

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The circulation of Federal Reserve notes outside the district of the issuing Bank is self-limiting, because of the fact that within a few years the notes will be wearing out at the same rate as they are coming into a district. The self-limiting process would be facilitated if a policy were followed of paying out fit notes of other Federal Reserve Banks as promptly as possible and in preference to a Reserve Bank's own fit notes. It is requested, therefore, that such a policy be followed uniformly by all Federal Reserve Banks and branches.

To facilitate this, it is suggested that in sorting currency the normal procedure be to segregate fit Federal Reserve notes into two sorts: (1) own notes, and (2) notes of other Federal Reserve Banks. During periods when fit notes are being paid out currently and there is, therefore, no material accumulation, such segregation of Federal Reserve notes might be discontinued and the distribution as to kind on currency reports be made on estimates based on current tests, the basis used for reporting distribution of holdings of unassorted currency. This, however, raises the operating question of whether efficiency would be impaired by shifting the basis for sorting from time to time.

It is believed that the effect of the new procedure on reserve positions of the Reserve Banks should not be greater than can be readily met and that the resultant changes in a Bank's position should be gradual. Furthermore, the allocation of the participations in the Open Market Account on the basis of total assets will compensate to a considerable extent for the losses and gains in gold certificate reserves due to the discontinuance of the practice of returning fit Federal Reserve notes to the Bank of issue.

The amendment to the law is permissive and not mandatory, and the return of fit notes is one means of restoring balance should that become necessary. Should a Federal Reserve Bank desire to return fit notes to other Federal Reserve Banks or to cancel and send in for redemption fit notes of \$500 denomination and above, it is requested that the Board be first advised.

The effects of the new practice will be followed at the Board with a view to working with the Reserve Banks on any problems that may develop with respect to reserve position and Federal Reserve note liability. Enclosed for your information are tables showing the percentage distribution of Federal Reserve note liability among the Federal Reserve Banks for the past three and one-half years. It is planned to keep

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these data current. Enclosed also for your information are tables showing the amounts of fit notes of other Federal Reserve Banks returned to Bank of issue in 1953 and the amounts of unfit notes of other Federal Reserve Banks shipped to Washington for destruction in 1953.

When the bill becomes law, the amount of Federal Reserve notes of other Federal Reserve Banks now shown as a separate item on Form F. R. 34 should be shown as a sub-item in the cash block, written in above the item "United States notes." Form 34 as printed for next year will be appropriately revised. The code word TANN will continue to apply to Federal Reserve notes of other Federal Reserve Banks after transfer of the item to the cash block.

Presidents Earhart and Erickson, who were designated by the Presidents' Conference to confer with the Board on questions arising from legislation regarding payment of notes of other Federal Reserve Banks, concur in this letter.

Appropriate detail instructions will follow.

At this point, Mr. Sprecher, Assistant Director, Division of Personnel Administration, entered the room.

Pursuant to the understanding at the meeting on June 28, 1954, Mr. Thurston had submitted to the members of the Board a revised draft of a statement of rules that might be put into effect at the Board relating to the confidentiality of System affairs and financial transactions and outside business activities of members of the Board's staff.

The draft was discussed on the basis of certain suggestions which had been made to Mr. Thurston by Governor Vardaman, and at the conclusion of the discussion the draft was referred back to Mr. Thurston with the understanding that he would revise the statement in the light of Governor Vardaman's suggestions and that upon approval by Governor Robertson the revised statement would become effective.

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Governor Mills had sent to each of the other members of the Board under date of July 13, 1954, a memorandum from Mr. Farrell dated July 9, 1954, relating to the procedure for the approval of officers' salaries at the Federal Reserve Banks. Mr. Farrell's memorandum covered certain points regarding the present arrangement for approval of officers' salaries which Mr. Johns, President of the Federal Reserve Bank of St. Louis, had raised with the Board informally following discussion at the June meeting of the Presidents' Conference. The difficulties mentioned by President Johns concerned the instructions contained in the Board's letter of May 24, 1954, to the Chairmen of all Federal Reserve Banks which provided (1) that the Board of Directors of each Bank should fix prior to October 1 of each year the salaries of officers for the forthcoming year, in order that such salaries might be covered in the budget submitted to the Board of Governors, and (2) that the budget should be accompanied by a list showing the salaries proposed for individual officers during the budget year. It was contended that it would be undesirable to fix individual salaries so far in advance of their effective date as would be necessary under these instructions, and the Board had asked Governor Mills to review the matter.

Mr. Farrell's memorandum presented for consideration four possible alternative procedures, and of these Governor Mills stated that he would favor the third, which would modify the present instructions by eliminating the requirement that the Reserve Bank budget be accompanied

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by a list of salaries proposed for individual officers and by providing that such a list, formally approved by the Board of Directors, be submitted in time to reach the Board not later than November 15. The information submitted with the budget would include a statement concerning the general policy contemplated with respect to changes in officers' salaries during the forthcoming year, as well as any other appropriate comments concerning a significant difference between the amount budgeted and expenses during the current year.

Governor Mills also reported having received an indication from Governor Szymczak, who served as Chairman of the Special Committee on Officers' Salary Administration, that, while he would favor the alternative mentioned in Mr. Farrell's memorandum which would continue the present procedure in effect until after the 1955 budgets had been submitted, with the understanding that the procedure would be reviewed in the light of that experience, the third alternative plan would be acceptable to him.

During a discussion of the problem, Messrs. Leonard and Farrell indicated that the procedure favored by Governor Mills was workable from the standpoint of the review of Reserve Bank budgets by the Division of Bank Operations and Mr. Sprecher stated that the November 15 deadline would allow the Division of Personnel Administration time to prepare satisfactorily the required analytical data on proposed officers' salaries.

At the conclusion of the discussion, the procedure

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recommended by Governor Mills was approved unanimously, with the understanding that an appropriate letter to all of the Federal Reserve Banks would be prepared.

Messrs. Sprecher and Farrell then withdrew from the meeting.

The following draft of letter to Mr. S. J. Phillips, President, Booker T. Washington Birthplace Memorial, Booker Washington Birthplace, Virginia, was presented for consideration:

This is in reply to your letter of July 6, 1954, requesting an extension until January 1, 1955 of the agreement between the Federal Reserve Banks and the Booker T. Washington Birthplace Memorial and the George Washington Carver National Monument Foundation regarding the distribution of commemorative coins. The expiration date of the agreement is August 7, 1954, the final date for the issuance of such coins under the law.

As you know, the Federal Reserve Banks cooperated with the Memorial in the distribution of Booker T. Washington fifty-cent pieces authorized by an Act of Congress approved August 7, 1946, and continued their cooperation with the Memorial and Foundation when the law was amended in 1951 to provide for the coinage and distribution of Booker T. Washington-George Washington Carver commemorative half dollars. Your letters have told us of your appreciation of this continuous cooperation covering a period of almost eight years.

The Federal Reserve Banks are, of course, prepared to observe the terms of their agreement. I regret to advise you, however, that it does not seem appropriate to request them to extend their agreement with the Memorial and the Foundation beyond August 7, 1954, when the authorization for the Mint to issue the coins expires.

Following a discussion, during which reference was made to the terms of the current agreement entered into by the Federal Reserve Banks with regard to the distribution of the

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commemorative coins and to the legal authority covering the issuance of such coins, the letter was approved unanimously in the form set forth above.

There were presented proposed telegrams to the Federal Reserve Banks of New York, Philadelphia, Chicago, and St. Louis stating that the Board approves the establishment without change by the Federal Reserve Bank of St. Louis on July 12 and by the Federal Reserve Banks of New York, Philadelphia, and Chicago on July 15, 1954, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Mr. Leonard reported having received from Mr. Earhart, President of the Federal Reserve Bank of San Francisco, a copy of a telegram sent yesterday by the San Francisco Bank to all of the other Federal Reserve Banks stating that all Hawaiian and certain Alaskan banks had agreed to remit for cash items at par. The telegram also stated that the head office would handle noncash items payable in Hawaii, and that the Seattle Branch would handle Alaskan noncash items only if payable at points where a par-remitting bank was located.

There was a discussion of the policy established by the San Francisco Reserve Bank with respect to the handling of noncash items payable in Alaska during which it was stated that the Board's Regulation G, Collection of Noncash Items, could be regarded as an enabling authority under which individual Federal Reserve Banks might establish more restrictive procedures in their discretion but that in the last analysis

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the procedures of the Federal Reserve Banks were matters for determination by the Board from the standpoint of over-all System policy. Reference was also made to various reasons which might have caused the San Francisco Bank to adopt the policy described in its telegram.

It was then suggested that Mr. Leonard be requested to contact President Earhart, advise him that the policy announced by the San Francisco Bank raised certain questions in the minds of the members of the Board, and ask him to submit a statement giving the reasons why the Reserve Bank felt that the adoption of such a policy was warranted.

This suggestion was approved unanimously.

Messrs. Leonard and Vest then withdrew from the meeting.

Governor Vardaman stated, as a matter of information, that following informal discussion of the matter at a recent meeting of the Federal Open Market Committee he called Mr. G. Keith Funston, President of the New York Stock Exchange, on the telephone and asked whether he had information available concerning transfers of listed stocks outside the facilities of the Exchange, sometimes at prices reported to be different from those quoted on the Exchange. Governor Vardaman said Mr. Funston advised that a firm had been employed by the Exchange to investigate and report on this practice, that the report was expected to be available by September, and that he would be glad to discuss the findings with the Board or with any individual members of the Board who might be interested.

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Reference was made to a memorandum dated July 1, 1954, from Mr. Sloan, Director, Division of Examinations, which had been circulated to the available members of the Board, concerning the review made by Arthur Andersen & Co. of the examination of the Federal Reserve Bank of New York made as of March 19, 1954, by the Board's field examining staff. Among other things, Arthur Andersen & Co. suggested that there be obtained from each Federal Reserve Bank under examination a letter of representation concerning the availability of Bank records to the examiners, along the lines of a sample included in the audit firm's report.

Governor Robertson said that, as indicated in Mr. Sloan's memorandum, he and members of the Board's staff, including the Chief Federal Reserve Examiner, had a discussion of the Arthur Andersen report and its recommendations with representatives of the company, at which time it was agreed tentatively that all of the suggested procedures would be put into effect. He suggested, therefore, that Mr. Sloan's memorandum be submitted to Governor Szymczak, and, if he agreed with it, that a letter be sent to the Chief Federal Reserve Examiner advising him formally of the Board's desire to have these procedures instituted.

This suggestion was approved unanimously, with the understanding that if Governor Szymczak concurred in the memorandum, an appropriate letter concerning the suggested letter of representation would be sent to all Federal Reserve Banks.

Secretary's Note: Governor Szymczak subsequently indicated his concurrence

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by initialing Mr. Sloan's memorandum.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on July 15, 1954, were approved unanimously.

Memoranda from appropriate individuals concerned recommending personnel actions as follows:

Appointments, effective upon the date of assuming duties

<u>Name and title</u>	<u>Division</u>	<u>Type of appointment</u>	<u>Basic annual salary</u>
Jerome T. Kelley, Federal Reserve Examiner	Examinations	Temporary indefinite	\$9,600
Bruce L. Rabbitt, Assistant Painter	Administrative Services	Temporary indefinite	3,440

Change in status of appointment

Esther R. Myers, Cafeteria Helper, Division of Administrative Services. From temporary (two months) to temporary indefinite, with no change in basic annual salary at the rate of \$1,315, effective upon the expiration of her present appointment.

Extension of temporary appointment

Edna L. Benjamin, Cafeteria Helper, Division of Administrative Services. For one month, with no change in basic annual salary at the rate of \$1,315, effective upon the expiration of her present appointment.

Salary increases, effective July 18, 1954

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
Doris I. Abell, Stenographer	<u>Board Members' Offices</u>	\$3,785	\$3,910

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Salary increases, effective July 18, 1954 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Office of the Secretary</u>			
M. Elizabeth Jones, Senior Index Clerk		\$4,830	\$4,955
Cornelia A. Bates, Supervisor, Non- current Records & Records Disposal		4,170	4,295
Adaline R. Beeson, Review Classifier		4,035	4,160
Beatrice Hunter, Assistant Chief, Files Section		5,310	5,435
Mildred E. Pilger, Supervisor, Adminis- trative, Subject, & FOMC Files		4,995	5,120
<u>Research and Statistics</u>			
Alfred P. Johnson, Economist		4,455	4,580
Rose E. Cassedy, Clerk		3,575	3,655
C. Lavon Watson, Clerk		3,110	3,190
Maurice H. Schwartz, Economist		6,740	7,040
<u>International Finance</u>			
Gordon B. Grimwood, Economist		5,435	5,940
Reed J. Irvine, Economist		5,185	5,940
<u>Bank Operations</u>			
John R. Farrell, Chief, Reserve Bank Budget and Expense Section		9,160	9,600
Marjorie F. Jones, Statistical Assistant		4,545	4,795
Nyart S. Sharigan, Clerk-Stenographer		3,255	3,335

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Salary increases, effective July 18, 1954 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Administrative Services</u>		
Robert H. Craft, Operator (Tabulating Equipment)		\$3,190	\$3,335
James E. Caldwell, Messenger		2,712	2,792
Mary F. Murphy, Clerk		2,910	2,990
Geraldine M. Venable, Cafeteria Helper		2,700	2,770

Approved unanimously.

Secretary's Note: The appointment of Mr. Kelley as Federal Reserve Examiner was approved notwithstanding his failure to pass the usual physical examination satisfactorily.

Letters to Mr. Pondrom, Vice President, Federal Reserve Bank of Dallas, reading as follows:

Reference is made to your letter of July 7, 1954 and the Board's letter of July 2, 1954 approving the appointment of Charles Finby McGee as an assistant examiner for the Federal Reserve Bank of Dallas. The Board has noted, with approval, that the effective date of Mr. McGee's appointment was July 1, 1954.

In accordance with the request contained in your letter of July 7, the Board approves the designation of Donald Earl Reily as a special assistant examiner for the purpose of participating in the examinations of State member banks.

As Mr. Reily has been employed as a trainee in your Examination Department with the intention of promoting him to an assistant examiner when you feel his experience justifies such a promotion, it will be

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appreciated if you will submit the information called for in the Board's letter S-178 of August 25, 1939 (F.R.L.S. #9181) as submitted in connection with the proposed appointments of examiners and assistant examiners. As if, and when you later request approval of his appointment as an assistant examiner, it will not be necessary to duplicate the information already submitted except to the extent that changes have occurred in the interim.

Approved unanimously.

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

Last paragraph of Board's letter of July 2, 1954 regarding recent amendments to Regulations G and J and to collection circulars and time schedules referred to distribution of such amendments to all nonmember banks to which your Bank sends items for collection and payment, as well as member banks in your district. Distribution to other than member and nonmember clearing banks need not be made unless you feel it desirable.

Approved unanimously.

Letter to Mr. Johns, President, Federal Reserve Bank of St. Louis, reading as follows:

This is in reply to your letter of May 14 and telephone call of July 6, requesting the opinion of the Board as to whether the following categories of acceptances are subject to the proviso in paragraph 7 of section 13 of the Federal Reserve Act which limits the aggregate amount of a member bank's "acceptances growing out of domestic transactions" to 50% of the bank's capital and surplus:

1. Acceptances drawn for the purpose of carrying American cotton exported and owned by American shippers and stored in warehouses abroad pending sale and distribution in channels of trade. In some cases at least, the drafts are accepted after physical exportation of the cotton from the United States has been completed.

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Paragraph 7 regards all acceptances as growing out of either foreign transactions or domestic transactions. If these drafts are secured at the time of acceptance by warehouse receipts covering cotton in the manner prescribed by the statute and by Regulation C, they come within the third type of acceptances enumerated in paragraph 7, and - the cotton being stored abroad - they grow out of foreign rather than domestic transactions. In the opinion of the Board, therefore, the limitation on acceptances growing out of domestic transactions would not apply to acceptances of this type.

2. Acceptances drawn for the purpose of carrying Mexican cotton owned by American shippers and stored in Mexican warehouses pending exportation to other countries or sale in Mexican channels of trade.

It is assumed that the drafts are secured at the time of acceptance by warehouse receipts that meet the requirements of section 13 and of Regulation C. As indicated under "1", above, drafts which are so secured by readily marketable staples stored in a foreign country cannot be regarded as "growing out of domestic transactions", and therefore are not subject to the aggregate limitation relating to domestic acceptances.

3. Acceptances drawn for the purpose of carrying Mexican cotton owned by American shippers and stored in American warehouses, in bond, pending exportation to other countries.

Assuming that the accepting bank is satisfied that the storage in the United States is only a step in the process of transporting the cotton from Mexico to another foreign country, the Board is of the opinion that the acceptances should be regarded as growing out of foreign transactions despite the temporary "in-transit" warehousing in the United States. On those assumptions, therefore, this class of acceptances would not be subject to the limitation relating to domestic acceptances.

Your letter also inquired whether the aggregate limitation on "domestic transaction" acceptances would be applicable to drafts accepted by a member bank in connection with the storage and subsequent sale of imported rubber and imported Scotch whiskey. Since the status of such acceptances may depend on the facts of particular cases, the Board prefers to defer decision thereon until it has before it detailed information regarding actual or typical transactions.

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The Federal Reserve Bank of St. Louis may wish to call the attention of Union Planters National Bank of Memphis to the principle digested in #5080 of the Federal Reserve Loose-Leaf Service, to the effect that where a member bank purchases its own acceptances before maturity, such acceptances are not subject to the aggregate limitations prescribed by section 13.

Approved unanimously.

Letter 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 July 14, 1954 enclosing a facsimile of the enrolled enactment of S. 3480, a bill "To amend section 24 of the Federal Reserve Act, as amended", and requesting the views of the Board with respect thereto.

The provisions of this bill are the same as those contained in the draft of a bill submitted to the Board with your letter of March 5, 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. The Board has no objection to the approval of the legislation by the President.

Approved unanimously.

Letter to Mr. John J. O'Neill, Relocation Specialist, Continuity of Government Division, Office of Defense Mobilization, Washington, D. C., reading as follows:

The attached draft of an "Outline of Present and Wartime Functions of the Board of Governors of the Federal Reserve System" is submitted for review pursuant to the draft document (ODM-8154) dated June 1954 which you delivered to Mr. Bethea on June 22, 1954.

Approved unanimously.


Secretary