

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, July 20, 1954. The Board met in the Board Room at 10:30 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. Vest, General Counsel
Mr. Sloan, Director, Division of Examinations

Governor Robertson referred to the proposed merger of the Fidelity Trust Company of Pittsburgh, Pennsylvania, a nonmember bank, with The Colonial Trust Company, a member bank in the same city, under the charter of the Fidelity Trust Company, which was the subject of the Board's letter of May 20, 1954, to the Federal Reserve Bank of Cleveland. He recalled that among the investments of the Fidelity Trust Company were certain corporate stocks, that it was contemplated that the Fidelity Trust Company would apply for membership in the Federal Reserve System effective before or simultaneously with the merger, and that the Federal Reserve Bank of Cleveland recommended permitting the merged bank to retain those stocks as well as certain corporate stocks which would be acquired from The Colonial Trust Company. In its letter, the Board advised that it saw no circumstances in this case which would justify permitting retention of the stocks now owned by the Fidelity Trust Company in the event of its admission to membership, but indicated that

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the bank would be afforded a reasonable period of time, not to exceed approximately three years, in which to effect disposition. Since the corporate stocks owned by The Colonial Trust Company were held by that bank prior to the adoption of the Board's present policy, the letter indicated that the Board would make no requirements with respect to their disposition.

Governor Robertson stated that according to advice received by telephone on July 19, 1954, from Mr. Stetzelberger, Vice President of the Federal Reserve Bank of Cleveland, the terms of merger had been agreed upon and it was planned to effect the merger on August 6. Since an application for membership had not been filed, Mr. Stetzelberger felt that an examination could not be completed and duly processed by August 6, and he inquired, therefore, whether the Fidelity Trust Company would be admitted to membership after the merger and permitted to continue to hold the stocks now owned by The Colonial Trust Company. Governor Robertson said that he discussed the matter with members of the Board's staff and that at his suggestion Mr. Sloan advised Mr. Stetzelberger that the Board's position with respect to retention by the merged bank of the stocks now held by The Colonial Trust Company would not be changed by a delay of a few weeks in the completion of membership, should an application be filed in good faith prior to the merger.

Governor Robertson went on to say that subsequently he reviewed the most recent report of examination of the Fidelity Trust Company made by examiners for the Federal Deposit Insurance Corporation and that the

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condition of the trust company appeared to be excellent. He recommended, therefore, that the Board waive the usual membership examination by the Federal Reserve Bank of Cleveland so that it would be possible for the Fidelity Trust Company to complete membership before August 6, if an application should be filed.

Governor Robertson's recommendation was approved unanimously, and it was understood that Mr. Sloan would call Mr. Stetzelberger on the telephone and advise him of the Board's decision.

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 16, 1954, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on July 19, 1954, were approved and the actions recorded therein were ratified unanimously.

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

The amendment to paragraph 3 of Section 16 of the Federal Reserve Act repealing the requirement that fit Federal Reserve notes of other Reserve Banks be returned to the issuing Bank became effective July 19, 1954.

Enclosed are revised instructions relating to the issuance and retirement of Federal Reserve notes. These instructions supersede the Board's letters of November 27, 1935 (X-9375, F.R.L.S. #5800), February 15, 1943 (S-621, F.R.L.S. #5804.1), May 24, 1943 (S-652, F.R.L.S. #5804.2),

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and May 21, 1946 (S-915, F.R.L.S. #5800).

The instructions have been revised to reflect changes arising from the recent amendment repealing the prohibition against paying out notes of other Federal Reserve Banks, to eliminate obsolete provisions, and to incorporate in one letter applicable provisions of various letters. A few editorial changes have been made in the revised instructions but they contain no changes of substance other than those relating to the treatment of fit notes of other Federal Reserve Banks.

Approved unanimously.

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

ISSUANCE AND RETIREMENT OF FEDERAL RESERVE NOTES

1. In May of each year the Board will furnish to each Federal Reserve Agent a statement showing an estimate of the amount of Federal Reserve notes to be printed during the next fiscal year. Upon receipt of the Federal Reserve Agents' recommendations with respect to such estimates, the Board will place the printing order with the Comptroller of the Currency.

2. Requests for the shipment of Federal Reserve notes from Washington shall be submitted to the Board on Form F. R. 45 or by telegram confirmed by written request on such form. Requests for the shipment of Federal Reserve notes shall be signed by the Federal Reserve Agent or Assistant Federal Reserve Agent and should be forwarded so as to reach the Board not later than 12:00 M Washington time of the day before shipment is to be made.

3. Federal Reserve notes may be issued to the Federal Reserve Bank by the Federal Reserve Agent on written application signed by an officer of the Federal Reserve Bank authorized by the Board of Directors or the Executive Committee to sign such application, provided collateral eligible under the provisions of the Federal Reserve Act as security for Federal Reserve notes is pledged with the Federal Reserve Agent by the Federal Reserve Bank in an amount at least equal to the amount of Federal Reserve notes issued to the Bank.

4. The Federal Reserve Agent, acting for the Board of Governors of the Federal Reserve System, may at any time call upon the Federal Reserve Bank for additional collateral to protect the Federal Reserve notes issued to such Bank. The Federal Reserve Agent may permit the Federal Reserve Bank to make

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substitutions in collateral held by him as security for Federal Reserve notes, provided the amount of the collateral so substituted is at least equal to the amount of the collateral withdrawn or, in case the amount of collateral pledged exceeds the amount of notes outstanding, does not reduce the amount of collateral below that amount. If at any time the amount of collateral held by the Federal Reserve Agent as security for Federal Reserve notes is in excess of the amount of such notes outstanding, the Federal Reserve Agent may permit the Federal Reserve Bank to withdraw such excess collateral or any portion of such excess.

5. Any Federal Reserve Bank may retire its Federal Reserve notes by depositing them with the Federal Reserve Agent, and thereupon it shall be entitled to release of collateral deposited, provided this does not reduce the amount of collateral below the amount of notes outstanding. Federal Reserve notes so retired shall not be reissued except upon compliance with the conditions of an original issue.

6. Federal Reserve notes unfit for further circulation received by a Federal Reserve Bank shall be sorted as to Bank of issue and denomination, canceled and cut longitudinally, and the uppers and lowers forwarded on separate days to the Treasurer of the United States. Entries reducing the amount of Federal Reserve notes outstanding on account of notes forwarded to the Treasurer of the United States for retirement should be made upon receipt of the CYPEP telegram from the Currency Redemption Division of the Office of the Treasurer of the United States.

7. Each Federal Reserve Agent shall authorize the Treasurer of the United States by power of attorney to turn over to the Comptroller of the Currency for destruction all unfit Federal Reserve notes of the Federal Reserve Bank to which such Federal Reserve Agent is accredited which are received by the Treasurer of the United States for the account of such Federal Reserve Agent.

8. In order to avoid accumulation of fit notes of other Federal Reserve Banks, a Reserve Bank should follow the policy of paying out such notes ahead of its own fit notes. Should a Federal Reserve Bank desire to return fit notes of other Federal Reserve Banks to the Bank of issue, or to cancel and send to the Treasurer of the United States for destruction fit notes of other Banks in the denomination of \$500 and over, it is requested that the Board of Governors be first advised, with the advice addressed to the Board's Division of Bank Operations.

9. Banks shipping Federal Reserve notes of other Banks to the Treasury for retirement or to the issuing Bank will bear

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shipping costs and will carry the notes while in transit in an appropriate account, such as "Federal Reserve notes of other Federal Reserve Banks in transit." Notes of other Federal Reserve Banks in transit are to be included along with Federal Reserve notes of other Federal Reserve Banks on hand in the item "F. R. notes of other F. R. Banks" on Form F. R. 34. On the day that ordinary or air mail advice of the shipment of unfit notes forwarded to Washington should arrive at the issuing Bank, the shipping Bank will credit "Federal Reserve notes of other Federal Reserve Banks in transit", with corresponding debit to uncollected items or other appropriate account.

The same procedure should be followed for fit notes shipped to the issuing Bank except that credit will be taken on the day the notes should arrive. It is suggested that mail advices be sent under separate cover to the Bank of issue covering fit shipments so that prompt advice may be given to the shipping bank if notes are not received.

On receipt of its own fit notes from another Federal Reserve Bank or branch, the issuing Federal Reserve Bank will credit the shipping Federal Reserve Bank (or branch, if a direct-settling branch) in the settlement for that day. Similar credit is to be given for unfit notes forwarded by other Federal Reserve Banks to Washington for retirement on receipt of mail advice of shipment.

Appropriate arrangements should be made between each Federal Reserve Bank and its non direct-settling branches, if any, so that payment for notes of other Federal Reserve Banks shipped by such branches may be made to the Federal Reserve Bank just as if the notes had been shipped by it.

Memorandum dated July 14, 1954, from the Staff Committee on Defense Planning reading as follows:

In connection with the Board's Plan for relocation of operations, it is believed that there would be considerable merit in the Board's adopting at this time a policy with respect to the pay status of Board employees during an emergency brought about by enemy action.

Accordingly, it is recommended that when an emergency exists the pay status for Board employees be as follows:

1. Employees who are designated to proceed to the relocation center and who report there promptly shall be paid their regular salaries without deduction for any loss of time due to the emergency.

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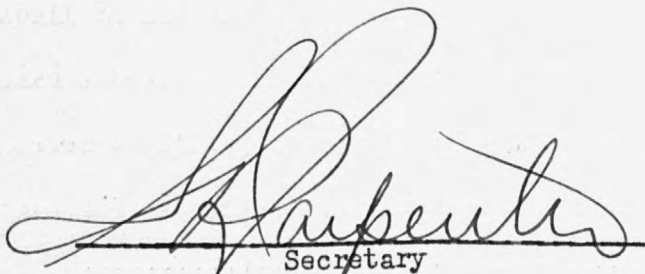
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2. Employees not scheduled to proceed to the relocation center who make contact promptly with the Personnel Department of the Federal Reserve Bank of Richmond through the Board's established mailing card registration procedure or, in lieu thereof, in person or by letter, shall also be paid their regular salaries without deduction for any loss of time due to the emergency.

3. In the absence of action by the Board to the contrary each employee who is not covered by paragraph (1) or (2) above shall be paid his regular salary without deduction for loss of time due to the emergency unless he has died. It shall be the duty of the appropriate division head, in consultation with the Division of Personnel and the Controller, to bring to the attention of the Board as promptly as possible every case in which he is of the opinion that there are reasons why salary accruing under this paragraph should not be paid.

In order to avoid burdening the Board or the Interim Board with routine matters during an emergency activating the Board's Relocation Plan, it is recommended that the Board at this time authorize and direct the Controller or Acting Controller to pay employees on the basis set forth above with the understanding that normal pay practices shall be adhered to where not inconsistent therewith and that any authority given herein may be modified by the Board at any time and salary credit and accrual shall cease at the death of an employee or upon appropriate action by the Board.

Approved unanimously.



Secretary