

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, July 21, 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. Vest, General Counsel
Mr. Young, Director, Division of
Research and Statistics
Mr. Sprecher, Assistant Director,
Division of Personnel Administration
Mr. Youngdahl, Assistant Director,
Division of Research and Statistics

Governor Robertson suggested that during the forthcoming periods in which he was to be absent on vacation the Board authorize Governor Mills to handle matters relating to the supervision and examination of State member banks and various other assignments for which he (Governor Robertson) had been given responsibility for primary consideration at the meetings of the Board on April 24 and May 1, 1952. He also suggested that during this period the Board authorize the Secretary to enter in the minutes, when approved by Governor Mills, approvals of appointments of Federal Reserve Bank examiners and assistant examiners and designations of Federal Reserve Bank special examiners and special assistant examiners.

Governor Robertson's suggestions were approved unanimously.

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In accordance with the understanding at the meeting on July 16, 1954, Mr. Thurston had revised and Governor Robertson had approved in the revised form, a statement of rules relating to the confidentiality of System affairs and financial transactions and outside business activities of members of the Board's staff. The statement read as follows:

The character of the Federal Reserve System requires the highest standards of conduct on the part of all persons who serve in the System.

Appropriate disciplinary action will follow for any member of the staff using confidential information, directly or indirectly, for the profit of himself or others, or for any other improper purpose.

All members of the staff shall understand clearly that they must not permit themselves to be placed in any position which might embarrass the System in the conduct of its operations or result in questions being raised as to the independence and honesty of their judgment in the discharge of their official responsibilities.

To insure such understanding, the Board of Governors has prescribed the following rules relating to the maintenance of the confidential character of System affairs; and to personal financial transactions and other outside business activities of members of the staff:

1. The affairs, actions, and activities of the System are confidential.
2. No member of the staff shall, except as may be necessary in the regular course of his work or as permitted by the Board, disclose or divulge to any unauthorized person any information obtained in the course of his work which in any way relates to the Board of Governors, Federal Reserve Banks, the United States Treasury, or other agencies of the Government, or other persons or organizations providing official information to the Board.
3. No member of the staff shall engage in speculative dealings (as distinguished from investment) in securities, commodities, real estate, money, exchange, etc.
4. Any borrowing by a member of the staff shall be on a basis that any securing of credit shall not be on terms more favorable than he would be given if he were not on the staff of the Board.

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5. No member of the staff shall engage in any outside business without permission of the Board.

I understand that any violation of the above rules may be cause for my immediate dismissal. In order that the record may show that these requirements have been brought to my attention and that I have read and understand them, I have signed my name below.

 (Date)

While it had been understood that all present and future employees of the Board would be asked to sign the statement, question was raised as to whether, as recommended by Governor Robertson in his memorandum to the Board of June 16, 1954, the rules would be brought to the attention of all employees annually, with the request that they acknowledge that they are cognizant of the rules and understand that they are still in effect.

Following a discussion, it was agreed unanimously that such a procedure should be followed and, to carry this action into effect, it was agreed that the statement of outside business and teaching activities now obtained annually from officers and employees of the Board holding positions in certain classification groups would be amended by inserting the following paragraph as the first paragraph of the statement, which would be obtained annually from all employees:

You have read and signed a statement of the Board's rules relating to maintaining the confidential character of the Board's affairs and to financial transactions and outside business activities of members of the staff. A copy of the rules

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is attached and your signature below will constitute an acknowledgment that you are cognizant of the rules and understand that they are still in effect.

At this point Messrs. Thomas, Economic Adviser to the Board, Leonard, Director, Division of Bank Operations, Sloan, Director, Division of Examinations, and Hackley, Assistant General Counsel, entered the room.

In accordance with the understanding at the meeting on July 12, 1954, further consideration was given to the study of the Federal Reserve discount mechanism and the proposed revision of Regulation A, Discounts For and Advances To Member Banks by Federal Reserve Banks.

At the request of the Board, Mr. Hackley offered additional comments on the latest draft of a proposed revision of Regulation A, copies of which had been sent to the members of the Board under date of July 16, 1954. He also indicated that since the July 12 meeting certain minor changes in language had been made in the proposed revision of Regulation A to take into account suggestions made by members of the Board and the staff.

Governor Mills then suggested that, if the other members of the Board were satisfied, as he was, with the regulation in its present draft form, a letter be sent over the signature of Chairman Martin to the Chairmen and Presidents of the Federal Reserve Banks and to the members of the Federal Advisory Council transmitting copies of the draft and inviting their comments and suggestions. He also proposed that in such a letter it be brought out that the study of the discount rate was

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continuing and that a report on that subject would be available in due course. Governor Mills further suggested that, if the reactions to the draft of Regulation A were generally favorable, the Board then proceed to publish the proposed regulation in the Federal Register and thereafter adopt a revised regulation.

Following further discussion, during which one additional change in the draft of the proposed revision of Regulation A was suggested by Governor Robertson and accepted, it was agreed unanimously that the procedure proposed by Governor Mills would be followed.

Secretary's Note: Pursuant to the above action, the following letter was sent over the signature of Chairman Martin to the Chairman and to the President of each Federal Reserve Bank on July 22, 1954:

On the basis of the report of the System Committee on the Discount and Discount Rate Mechanism and the System discussions and suggestions with respect to the report, another draft revision of the Board's Regulation A has been prepared. The Board has asked me to circulate this draft to you for such further comment and suggestions as you may wish to make. The Board is also sending this draft to the members of the Federal Advisory Council and inviting their comments.

Regulation A, as you know, has not been revised since 1937. In the present revision, the aim has been to put the regulation in a form consistent with present day discount practices.

The Committee on the Discount and Discount Rate Mechanism is continuing its work and in due course expects to submit a report covering the operation of the discount rate.

Also, pursuant to the above action, the following letter was sent over the signature of Chairman Martin to

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Mr. Edward E. Brown, President of the Federal Advisory Council, on July 22, 1954, with similar letters to the other members of the Council:

As you know, a Federal Reserve Committee has been engaged over the past year in a comprehensive study of the System's discount and discount rate mechanism. On the basis of the Committee's report on the discount mechanism phase of its work and extensive written and oral discussion and comment on the report by the Reserve Bank Presidents and Chairmen, a draft revision of the Board's Regulation A has been prepared. This draft is now being circulated throughout the System for further review and comment.

Regulation A, as you know, has not been revised since 1937. In the present revision, the aim has been to put the regulation in a form consistent with present day discount practices.

The Board has asked me to send a copy to you as a member of the Federal Advisory Council and to invite such written comments on the draft as you may care to make. The Council may also wish to discuss this draft with the Board at its regular quarterly meeting in September. This is in accord with my telephone conversation of today.

Messrs. Thomas, Leonard, Vest, Young, Sloan, Hackley, and Youngdahl then withdrew from the meeting.

Governor Vardaman drew attention to the procedure currently followed in the reclassification of positions held by members of the Board's staff, stating that, although he had no criticism of the present procedure, it had occurred to him that the reclassification of employees into the higher groups might merit more attention on the part of the Board. Under the present system, he pointed out, the reclassifications were accomplished without the knowledge of the members of the Board except as to approval of the recommendations for resulting salary increases.

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At the request of the Board, Mr. Sprecher then reviewed in some detail the current classification procedures. In the course of his comments, Mr. Sprecher brought out that, especially in the higher groups, there might be some question from case to case whether the Board wished to have a particular individual assigned to tasks of greater responsibility, but that once the individual was so assigned by his division the reclassification proceeded according to a review of the duties involved in the light of appropriate standards.

Following a discussion based on Mr. Sprecher's comments, Chairman Martin suggested that for a trial period cases in which it was contemplated that a position would be reclassified to the level of Group V in the Board's classification plan or above be discussed at a meeting of the Board and that the proposed reclassification be placed on the agenda two or three days in advance.

There was unanimous agreement that the procedure suggested by Chairman Martin should be followed for a trial period, with the understanding that, on the basis of an appraisal of the work involved and the benefits obtained, the Board would decide whether the practice should be continued.

At this point, Mr. Cherry, Legislative Counsel, entered the room. At this point, also, Messrs. Vest and Sloan rejoined the meeting and Mr. Sprecher withdrew.

Governor Robertson referred to bill S. 975, which would authorize the approval of branches for Federal savings and loan associations if

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branches were authorized for State savings and loan associations by the laws of the particular State. He noted that the bill had now been passed by the Senate and that, although it did not appear likely that it would be considered by the House of Representatives at this session of Congress, the Bureau of the Budget had inquired informally regarding the Board's views.

Governor Robertson recalled that this proposed legislation was the subject of discussion by the Board earlier this year and that at the meeting on February 4 he reported having requested the Legal Division to draft a statement which might be presented by the Board if its views were requested by the Senate Banking and Currency Committee, which was then holding hearings. He then read the draft, which took the general position that the Board would favor legislation along the lines of S. 975.

In a further statement, Governor Robertson said he felt strongly that as a matter of principle Federal savings and loan associations should not be permitted to establish branches except on the same basis that national banks are authorized to establish branches. He proposed, therefore, that Mr. Vest be authorized to state informally to the Bureau of the Budget that the Board's views were along the lines stated in the draft prepared by the Legal Division, but that the Board had not filed a report and would not wish to do so unless requested by a Congressional committee.

This suggestion was approved unanimously.

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Messrs. Thurston and Cherry then withdrew from the meeting.

Governor Vardaman referred to a letter dated July 15, 1954, which he had received from Mr. Byron Moser, of St. Louis, Missouri, relating to the disposition of the stock of the Mercantile-Commerce National Bank, St. Louis, Missouri, which in 1934 was withdrawn from Mercantile-Commerce Bank and Trust Company, also of St. Louis, and transferred to certain trustees for shareholders of the trust company. In this connection, Mr. Moser drew attention to the Board's letter of March 27, 1935, to the Mercantile-Commerce Bank and Trust Company regarding this matter. Governor Vardaman stated that he was referring Mr. Moser's letter to the Legal Division for consideration and such action as seemed appropriate.

Governor Robertson stated that earlier this year Mr. Moser, after calling upon Mr. Johns, President of the Federal Reserve Bank of St. Louis, visited the Board's offices and talked with Mr. Solomon, Assistant General Counsel. Governor Robertson said that at the time he reviewed thoroughly the file on the matter referred to by Mr. Moser and came to the conclusion that there was no action which the Board should take.

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:

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Reserve System on July 20, 1954, were approved unanimously.

Letter to The First National Bank of South Carolina of Columbia, Columbia, South Carolina, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as executor, administrator, 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 South Carolina. The exercise of these powers, in addition to those heretofore granted to act as trustee and registrar of stocks and bonds, shall 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 First National Bank of South Carolina of Columbia is now authorized to exercise will be forwarded to you in due course.

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

Letter to the Second National Bank and Trust Company of Saginaw, Saginaw, Michigan, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers, and, in addition to the authority heretofore granted to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, and committee of estates of lunatics, grants you authority to act, when not in contravention of State or local law, 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 Michigan. The exercise of all such powers shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

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A formal certificate indicating the fiduciary powers which the Second National Bank and Trust Company of Saginaw is now authorized to exercise will be forwarded to you in due course.

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

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

Reference is made to the action taken by the Conference of Presidents at its meetings on June 21-22, 1954, approving recommendations with respect to the Federal Reserve Leased Wire System made by the Committee on Miscellaneous Operations on the basis of the proposals put forward by the Subcommittee on Cash, Leased Wire and Sundry Operations in its report of meetings held on June 16-18, 1954, as follows:

1. That the recommendations contained in the Study Report dated May 20, 1954, by the American Telephone and Telegraph Company be put into effect and, in particular, that stations on the two southern circuits (7414 and 7424) be rearranged into three circuits in order to effect the best possible balance of circuit loads consistent with the most economical arrangements, at an increased monthly cost of \$671.32; and that one spare duplex line termination be installed at the Richmond Switching Center at a cost of \$2,000 and a monthly cost after installation of \$150. (The rearrangement of circuits was completed on July 19, 1954 but the equipment for the spare termination to be installed at the Switching Center can not be furnished for at least eight months. These proposals were contained in recommendation number 3 of the Study Report. Recommendations numbers 1 and 2 of the Report were put into effect June 1, 1954.)

2. That the trial transmission of wire transfers of funds and C.P.D. transactions in clear language between the New York and Boston Reserve Banks be continued until a decision has been reached in connection with an expansion of the plan. (The trial operation began June 7, 1954, and it was originally contemplated that it would extend over a period of three months with total installation costs of \$389 and monthly equipment rental of \$465.20.)

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3. That a point-to-point numbering system be adopted for messages transmitted over the 81-D-1 network effective simultaneously at all points on September 1, 1954. The proposed numbering system will supersede the present daily cumulative message numbering system for all messages, including service messages, sent from each station or machine except that it will not be used on group code messages or on messages not forwarded over the 81-D-1 system. Pilot wires may be sent when deemed necessary in connection with group code messages.

4. That a second sending machine be installed at the Richmond Switching Center at a monthly rental of \$65, with installation charge of \$15. At present the Switching Center has only one sending machine for Richmond Reserve Bank traffic and Switching Center business. During heavy periods of the day this machine is overloaded and there is some conflict between these two types of traffic in determining which messages should be handled first. The installation of the second sending machine will correct this undesirable condition.

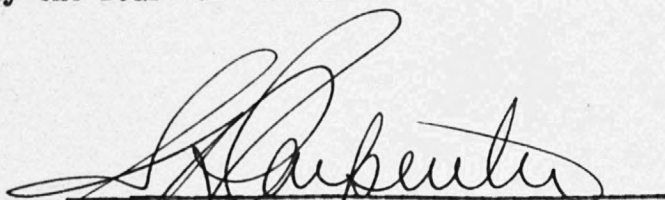
5. That no change be made in the present testword procedure at this time.

The Board concurs in the action taken by the Conference of Presidents as set forth above.

Approved unanimously.

Recommendation contained in a memorandum dated June 22, 1954, from the Staff Security Group that the position of the secretary to each member of the Board be designated as "sensitive" under the Board's Employment Security Regulations.

Approved unanimously, with the understanding that the occupants of such positions would be given the same clearance investigation as those persons holding positions previously designated by the Board as "sensitive."


Secretary