

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, August 10, 1954. The Board met in the Board Room at 11:00 a.m.

PRESENT: Mr. Szymczak, Acting 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

Reference was made to a memorandum from Mr. Leonard dated August 3, 1954, discussing preliminary plans and specifications for the new Louisville Branch building which had been submitted by the Federal Reserve Bank of St. Louis. The memorandum stated that the plans and specifications had been reviewed by Mr. Persina, Consulting Architect to the Board, who considered the basic plan excellent but had some reservations as to the design and cost of the building. The memorandum then went on to discuss these and other questions, including the size of the proposed structure.

At the request of Governor Szymczak, to whom the matter had been referred for consideration at the meeting on August 6, 1954, Mr. Leonard commented with respect to the matters covered in his memorandum and certain other points which had been raised in reviewing the preliminary plans and specifications. In this connection, he noted that a copy of Mr. Persina's

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letter to him containing the former's comments would be sent in the usual course to the Federal Reserve Bank of St. Louis as a matter of information.

Following a discussion based on Mr. Leonard's remarks, the members of the Board present expressed the view that the questions which had been raised with respect to the preliminary plans and specifications were important enough that representatives of the St. Louis Reserve Bank should be invited to meet with the Board of Governors for a discussion at some mutually convenient time before any further action was taken by the Board.

Accordingly, unanimous approval was given to a letter to Mr. Johns, President of the Federal Reserve Bank of St. Louis, in the following form:

The Board has considered the preliminary plans for the new Louisville Branch building, and before taking action on the matter would like to discuss various phases of the proposal with representatives of the Bank and of the Branch. The Board will appreciate it if the group from the Bank includes the Chairmen of the Boards of Directors of the Bank and the Branch.

In order that a mutually convenient time for such a meeting might be arranged, it will be appreciated if you will suggest convenient times for the meeting.

Among the matters that the Board would like to discuss at the meeting are: The size of the building; the use of the aluminum fins on the front and rear of the building; costs, and the possibility of alternate materials of high quality but less costly than some of those listed in the outline specifications.

In this connection, unanimous approval was also given to the following letter for the signature

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of Governor Szymczak, as Acting Chairman, to Mr. Alexander, Chairman of the Federal Reserve Bank of St. Louis, who had written to Chairman Martin under date of August 5, 1954, urging that the Board expedite its consideration of the preliminary plans for the new Louisville Branch building:

In the absence of Chairman Martin, I am replying to your letter of August 5 regarding plans for the Louisville Branch building, and am enclosing a copy of a letter sent today to President Johns regarding the matter.

We appreciate the desire of the Bank to move rapidly now that the site has been acquired, and I hope that the meeting referred to in the letter to Mr. Johns may be held soon and the questions resolved promptly.

We share, I know, your desire for a building at Louisville that will be a credit to the Branch and the community for many years.

Mr. Leonard then commented on preliminary plans and sketches of a new building for the Buffalo Branch which had been submitted by the Federal Reserve Bank of New York. He also stated that the plans had been reviewed by Mr. Persina, who indicated that he was satisfied with them. It was Mr. Leonard's recommendation, in the circumstances, that the Federal Reserve Bank of New York be authorized to prepare detailed plans and specifications for the new building on the basis of the preliminary plans.

Following a discussion, unanimous approval was given to a letter to Mr. Treiber, First Vice President of the Federal Reserve Bank of New York, in the following form:

The Board approves the preparation of detailed plans and specifications for a new building for the Buffalo

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Branch on the basis of the preliminary plans and sketches (basic plan) referred to in your letter of July 6, 1954.

In accordance with the established procedure, it is understood that when the detailed plans and specifications have been completed they will be submitted to the Board of Governors for consideration prior to requesting bids.

Governor Szymczak suggested that Mr. Riefler, Assistant to the Chairman, be authorized to travel to Philadelphia, Pennsylvania, on Thursday, August 12, 1954, to attend, as representative of the Board, the swearing-in ceremonies of Mr. C. Canby Balderston as a member of the Board of Governors.

Governor Szymczak's suggestion was approved unanimously.

Governor Szymczak stated that Mr. Ray A. Ilg, Vice President of The National Shawmut Bank, Boston, Massachusetts (who met with the Board on August 4, 1954, and at that time requested a definite ruling concerning the applicability of Regulation Q, Payment of Interest on Deposits, should the member bank undertake to provide certain pay roll services for a large depositor) called him on the telephone this morning to inquire whether the Board had reached a conclusion on the matter.

There followed a discussion during which various comments were made by the members of the Board present concerning the question whether the practice under consideration might constitute a payment of interest by the member bank in violation of the law or Regulation Q and concerning the question whether the practice might constitute the operation of a

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branch. Some consideration was also given to the Board's general policy, adopted in 1937, of not passing upon questions as to whether particular practices involve a payment of interest in violation of Regulation Q except after development of all the pertinent facts and circumstances through examinations of the member bank involved, and it was the consensus that the general policy was sound and should be adhered to in this case.

With respect to the question of practices constituting a branch operation, Governor Robertson expressed the view that the subject was one deserving attention on a nation-wide basis by the Federal and State bank supervisory agencies. He also commented that the subject had been under consideration by the inter-agency committee on bank supervisory matters.

At the conclusion of the discussion, it was understood that on the basis of the views presented at this meeting Mr. Vest would prepare a draft of letter to the Federal Reserve Bank of Boston for consideration at the meeting of the Board tomorrow.

Mr. Leonard then withdrew from the meeting.

There was presented a request that Mr. Solomon, Assistant General Counsel, be authorized to travel to New York, New York, on August 16 and 17, 1954, to attend a meeting of a special System committee regarding certain questions raised by the Internal Revenue Service concerning the Retirement System of the Federal Reserve Banks.

Approved unanimously.

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The following draft of letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., (Attention: Mr. L. A. Jennings, Deputy Comptroller of the Currency), had been circulated to the members of the Board and was presented for consideration at this meeting because the recommendation contained therein differed from the recommendation of the Federal Reserve Bank of New York:

Reference is made to a letter from your office dated June 2, 1954, enclosing photostatic copies of an application to organize a national bank at White Plains, New York, 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 a representative of the Federal Reserve Bank of New York, is generally favorable with respect to the factors usually considered in such cases, except as to the question of management. It appears that definite arrangements have not been made for capable and experienced personnel to operate the bank, and it is questionable whether the proposed group of directors have the qualifications necessary to discharge their responsibilities successfully. If these matters are resolved to the satisfaction of your office, 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.

Governor Vardaman referred to a Board press release dated August 9, 1954, containing preliminary data on member bank earnings for the first half of the year 1954 and stated that there was a question in his mind as to the advisability of continuing the public release

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of such information with respect to member banks. He suggested that it might be desirable to have some discussion with the Comptroller of the Currency on this point.

Following a brief discussion based on Governor Vardaman's comments, it was understood that Governor Robertson would give consideration to the matter and report to the Board.

Governor Mills reported on a meeting which he and Mr. Vest attended yesterday afternoon at the Department of Health, Education, and Welfare for the purpose of discussing section 114 of H. R. 9366, a bill to amend the Social Security Act, known as the Social Security Amendments of 1954. As he had stated at the meeting on August 3, 1954, this provision, inserted in the bill by the Senate Committee on Finance, would provide that in determining benefits (other than a benefit under title II of the Social Security Act or a benefit under the Railroad Retirement Act of 1937, as amended) under any retirement system established by the United States or any instrumentality thereof, any service which constitutes employment under section 210(a) of the Social Security Act and which is performed after 1954 by officers or employees of the United States or any instrumentality thereof shall not be taken into account. Governor Mills said that the meeting yesterday, which was called by Mr. Roswell Perkins, Assistant Secretary of Health, Education, and Welfare, and was attended by representatives of several interested Government agencies, resulted in agreement with a suggestion by Mr. Perkins that representatives of his Department and others who

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might desire to do so call upon Senator Williams, of Delaware, who sponsored the inclusion of the provision in question, as soon as arrangements could be made for such a meeting, in order to review the matter. (A memorandum commenting further on the discussion at yesterday's conference had been prepared by Mr. Vest under date of August 10, 1954, and has been placed in the Board's files.)

There was a further discussion of the effect of section 114 on the Retirement System of the Federal Reserve Banks, and possibly upon the retirement systems of national and State member banks, following which it was agreed that Governor Mills and Mr. Vest should attend the suggested meeting with Senator Williams whenever that meeting was arranged. It was also understood that Mr. Vest would inform Mr. Wurts, Chairman of the Retirement Committee of the Retirement System of the Federal Reserve Banks, and President Young, Chairman of the Conference of Presidents of the Federal Reserve Banks, regarding the latest developments in the matter.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on August 6, 1954, were approved unanimously.

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

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In accordance with your letters of July 16 and August 3, 1954, the Board approves the payment of salary to those employees of the Federal Reserve Bank of Chicago who are classified as Janitresses or Matrons at rates up to \$3,057.60 per annum effective January 1, 1954.

The Board understands that this action will place the top rate payable for these jobs at a level almost \$180 per annum above the maximum of the salary grade to which they are assigned under the Job Classification and Salary Administration Plan and will reflect rates recently established between the Building Managers' Association of Chicago and the Janitors' Union.

This approval is granted in accordance with the Board's letters of February 18 and June 2, 1954, which stated that after Board review of new contracts between the Association and certain specified unions, approval would be given to your Bank to pay salaries up to those rates without further reference to the Board.

Approved unanimously.

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

Reference is made to your letter of July 29, 1954, submitting the request of the President and Directors of the Manhattan Company (Bank of the Manhattan Company), New York, New York, for an extension of time within which it may establish a branch on the south side of Archer Avenue, 398 feet west of 150th Street, Jamaica, Queens County, New York.

It is noted that, due to delays in construction, the branch building will not be available in time for the opening of the branch within the six months' period authorized by the Board, but it is expected that the building will be ready within a few weeks thereafter.

On the basis of the information submitted, and in accordance with your recommendation, the Board of Governors extends to October 25, 1954, the time within which the subject bank may establish a branch at the location stated above under the approval given by the Board in its letter dated February 24, 1954.

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Reference is made to your letter of July 30, 1954, submitting the request of The County Trust Company, White Plains, New York, for an extension of time within which it may establish a branch at 158 Westchester Avenue, White Plains, New York.

It is understood that the applicant bank has found it desirable to change the original plans for renovating the proposed branch building, thus delaying the awarding of the contract.

On the basis of the information submitted and in accordance with your recommendation, the Board of Governors extends to February 18, 1955, the time within which the subject bank may establish a branch at the location stated above under the approval given by the Board in its letters dated February 18, 1954, and March 5, 1954.

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks, prepared pursuant to the understanding at the meeting on July 16, 1954, and reading as follows:

At the request of the Board, Arthur Andersen & Co. reviewed the procedures of the Board's field staff of examiners during their examination of the Federal Reserve Bank of New York as of March 19, 1954. Among the suggestions for improvement in procedures submitted by Arthur Andersen & Co. as a result of such review was a suggestion "that the examiners secure a letter of representation from each bank under examination which should cover, among other things, the fact that all appropriate records have been made available to the examiners and nonauditable transactions, to the extent they fall within the examiners' province, have been made known to them (contingent liabilities, commitments not yet processed in the records, etc.)."

In compliance with this suggestion, it is requested that, during each examination of your Bank, you submit to the Chief Federal Reserve Examiner such a letter of representation. The letter should be submitted in quadruplicate and should be written in conformity with the enclosed form, with only such alterations as may be required by the circumstances of any particular examination.

Your cooperation in observing this procedure will be appreciated.

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Approved unanimously, together with the following letter to Mr. Lang, Chief Federal Reserve Examiner, Division of Examinations:

The Board has received and considered the report submitted by Arthur Andersen & Co. covering their review of the examination of the Federal Reserve Bank of New York made as of March 19, 1954, by the field staff of examiners, and desires to adopt, as discussed more fully below, the six suggestions for improvements offered in the report.

Suggestions numbered 1, 2, and 4 do not require detailed comment, and it is understood that you are already following these suggestions.

With respect to suggestion numbered 3, regarding regular weekly staff training sessions, it is recognized, as indicated in the statement of the suggestion, that practical problems arise in carrying out such a program on a regular weekly basis, due to the pressure of the work of the examination during its opening and closing phases, the assignment of a number of men to branches in certain districts, and the many unpredictable demands upon the time of senior examining personnel. However, it is understood that for some time you have been making use of staff training sessions and find them valuable, and that you will endeavor to increase their number and frequency. It is the Board's desire that this be done to the fullest extent practicable in the circumstances of the work of the field staff.

Enclosed for your information is a copy of a letter which is being sent today to the Presidents of all of the Federal Reserve Banks requesting that a letter of representation, as described in suggestion numbered 5, be submitted to you during each examination of a Federal Reserve Bank.

Suggestion numbered 6 is to the effect that the check of classification of expense vouchers be restricted to a shorter test period. You are authorized to comply with this suggestion with the understanding that the scope of investigations will be increased if considered desirable in any particular circumstances.

Secretary's Note: The letter of representation referred to

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in the foregoing letters was
in the following form:

FEDERAL RESERVE BANK OF _____
(Date) _____

Mr. Arthur H. Lang,
Chief Federal Reserve Examiner,
Division of Examinations,
Board of Governors of the
Federal Reserve System,
Washington, D. C.

Dear Sir:

This letter is furnished in connection with your examination of the Federal Reserve Bank of _____ as of _____ to give you our assurance that to the best of our knowledge and belief the Bank's accounts and financial statements have been maintained and prepared properly to reflect the position of the Bank.

All records appropriate to your examination of the Bank have been made available to your examiners.

Except for furniture, fixtures, and certain equipment which are charged to expense currently in accordance with the Bank's policy, there were no other unrecorded or contingent assets of any nature at _____.

All material known or ascertainable direct liabilities and accountabilities of the Bank at _____ have been taken up in the books.

The Bank had no material contingent liabilities or commitments of any nature at _____ except for certain items which were made known to you in writing.

We know of no additional material facts in connection with your examination which are not shown upon the books of account or which have not been made known to you.

Very truly yours,

President

Letter to The Honorable J. Lee Rankin, Assistant Attorney General, Department of Justice, Washington, D. C., reading as follows:

This is in reply to your letter of July 22, relating to the interpleader compact which is to be considered by

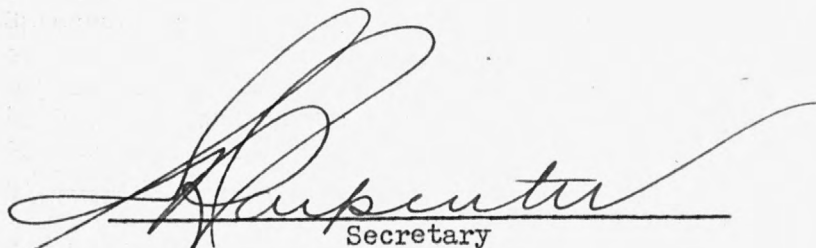
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the Drafting Committee of the Council of State Governments at its meeting on September 20-21, 1954. Enclosed with your letter was a copy of the model act, the compact, and an explanatory statement.

The interpleader compact is not a matter of any special or direct concern to this agency and, accordingly, the Board of Governors has no comments to make with respect to the proposal at this time. Your courtesy in affording us an opportunity to comment is appreciated.

Approved unanimously, with the understanding that copies of the letter from Mr. Rankin, its enclosures, and the Board's reply would be sent to Mr. Tiebout, Vice President and General Counsel, Federal Reserve Bank of New York.



Secretary