

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, August 11, 1954. The Board met in the Board Room at 10:00 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. Riefler, Assistant to the Chairman
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Sprecher, Assistant Director, Division of Personnel Administration
Mr. Noyes, Assistant Director, Division of Research and Statistics
Mr. Benner, Assistant Director, Division of Examinations

There was presented a memorandum from Mr. Young dated August 9, 1954, recommending that Mr. Miller, Acting Chief of the Government Finance Section, Division of Research and Statistics, be authorized to attend the 47th Annual Conference of the National Tax Association, to be held at Bretton Woods, New Hampshire, from September 26 to 30, 1954, and to present a paper on "Manufactures' Excise Taxation vs. Retail Sales Taxation for Federal Revenue Purposes".

Following comments by Mr. Young on the activities and membership of the National Tax Association and the nature of the paper which Mr. Miller would present, the recommendation contained in Mr. Young's memorandum was approved unanimously.

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Pursuant to the understanding at the meeting of the Board yesterday, the following draft of letter to Mr. Latham, Vice President of the Federal Reserve Bank of Boston, had been prepared and copies had been distributed to the members of the Board in advance of this meeting:

Mr. Ray Ilg, Vice President of the National Shawmut Bank, Boston, Massachusetts, discussed with the members of the Board on August 4, 1954, the question that was the subject of the Board's letter to you of July 22, 1954, involving the absorption by a member bank of the cost of armored car transportation of funds and of the expense of furnishing personnel for the handling of pay rolls, the cashing of checks, etc., for a customer of the bank. Mr. Ilg urged the Board to make a ruling on the question whether the practices referred to would constitute the payment of interest by a member bank in violation of the law or Regulation Q.

The Board has carefully reviewed this matter in the light of the considerations urged by Mr. Ilg. The question, however, whether the practice in question would involve a payment to the depositor as compensation for the use of the funds constituting a deposit is one which necessarily depends upon the detailed facts of the particular situation. In this instance, the National Shawmut Bank is not engaged in the practice at this time and thus the detailed facts upon which any conclusion would have to be based are not known. The Board appreciates the desire of the member bank to be informed whether a proposed practice would be consistent with the law, but it does not believe that it can properly attempt to give specific answers to involved questions of this kind in advance and in the absence of information as to all of the circumstances as disclosed by examination. Accordingly, the Board does not feel that it can comply with the request made by Mr. Ilg at this time. If the National Shawmut Bank should wish to give consideration to the possibility of engaging in the practice, it must do so on the basis of the law and the Board's regulations, with the realization that the practice may constitute a payment of interest or the operation of a branch, depending on the facts that may ultimately develop.

It will be appreciated if you will advise Mr. Ilg that the Board has thoroughly considered his request but is unable at this time to comply for the reasons indicated.

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During a discussion of the matter, Governor Vardaman referred to the Board's policy of refraining from ruling in advance whether various practices contemplated by member banks would constitute violations of law or the pertinent regulations of the Board. He mentioned that it was possible to obtain such information when questions were presented by interested parties to other agencies of the Government and expressed the feeling that it might be advisable for the Board to consider changing its policy and making tentative rulings in cases such as the one presented by the National Shawmut Bank. Governor Vardaman went on to say, however, that if it was the view of the other members of the Board that the current policy should be continued, he would have no objection to the draft of letter which had been prepared for transmittal to the Federal Reserve Bank of Boston.

In a further discussion of the matter and the comments made by Governor Vardaman, the opinion was expressed by the other members of the Board present that the draft of letter which had been prepared was satisfactory and that, although there was some merit to Governor Vardaman's contention, the Board should continue its general policy of not giving opinions or rulings in response to hypothetical questions or on the basis of contemplated practices where the Board was not in possession of all of the facts which might ultimately develop.

At the conclusion of the discussion, unanimous approval was given to the letter to Vice President Latham in the form set forth above.

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Mr. Benner then withdrew from the meeting.

Prior to this meeting there had been sent to the members of the Board copies of a letter dated August 6, 1954, addressed to Chairman Martin by Congressman Talle, Chairman of the Subcommittee on Economic Statistics of the Joint Committee on the Economic Report. Attached to the letter was a progress report submitted by the Subcommittee under date of July 30, 1954, and Congressman Talle's letter referred particularly to recommendation No. 9 in the progress report, which read as follows:

9. The Federal Reserve System might well expand its statistical collection and analysis programs where it has special interest and competence. The subcommittee is requesting the Federal Reserve to explore, in cooperation with executive agencies, the adequacy of present statistics in three basic areas: (1) inventories, (2) savings, and (3) consumer and business expectations. This request includes a thorough review of, and basic research into, concepts, existing data, sources and procedure for improving these statistics.

Congressman Talle's letter requested that the Board of Governors, in cooperation with appropriate Government agencies, proceed with the specific studies mentioned in the recommendation and submit reports as soon as possible.

There had also been sent to the members of the Board before this meeting copies of a suggested reply to Congressman Talle, prepared for the signature of Governor Szymczak as Acting Chairman, which took the position that the Board was anxious to be of assistance to the Subcommittee, that the Division of Research and Statistics was being asked

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to survey the task, and that when the survey was completed the Board would consider the matter and advise as to the contribution which it felt that it might make. The draft also included a final paragraph pointing out that any worth-while contribution to the extension of knowledge in this field would require the attention and planning efforts of the Board's senior professional staff and that the Board's resources of experienced professional personnel would, of course, limit its ability to expedite this work.

Question was raised as to the advisability of including the final paragraph in the letter, and in response Mr. Young stated that it had been included in recognition of the fact that the areas of inquiry referred to by the Subcommittee would require a great deal of study by competent personnel in order to arrive at any satisfactory solutions. He noted that the undertaking of this task would place a considerable additional burden upon the staff of the Division of Research and Statistics, that it probably would require the retention of consultants, and that it might require some expansion of the staff.

There was a discussion of the matter and, while the members of the Board recognized the validity of the statement made by Mr. Young, it was their feeling that the complicated nature of the task was suggested adequately elsewhere in the letter to Congressman Talle.

Accordingly, unanimous approval was given to a letter from Governor Szymczak, as Acting Chairman, to Congressman Talle, reading as follows:

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In the absence of Chairman Martin, I have brought to the attention of the Board of Governors the request contained in your letter of August 6, 1954 that the Federal Reserve explore, in cooperation with other Executive agencies, the adequacy of present statistics covering inventories, savings, and consumer and business expectations, the exploration to include a thorough review of, and basic research into, concepts, existing data, sources and procedure for improving these statistics.

The Board of Governors is anxious to be of any assistance that it can to your Committee in exploring the research problems of these fields. As indicated in your letter, such an exploration is a major undertaking and will involve a considerable amount of time. The Board is asking its Division of Research and Statistics to survey the task. As soon as that is done, the Board will consider the matter and will advise your Committee of the contribution which we feel might be made.

Messrs. Riefler and Vest then withdrew from the meeting.

Governor Robertson referred to the question raised at yesterday's meeting by Governor Vardaman concerning the publication of data on member bank earnings. He stated that in accordance with the understanding yesterday he had looked into the matter and found that statistics on earnings of national banks had been compiled by the Comptroller of the Currency since 1873. These figures, he said, had been published regularly over most of the succeeding period in the Comptroller's annual reports and other releases. Governor Robertson also said that he had attempted to find reasons why these data should not be published and had been unable to do so. He pointed out that similar information regarding other types of corporations was available to the public through various sources so that it could not be said that member banks were being treated in a different manner from other business concerns.

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Governor Robertson thought that the earnings of commercial banks were a matter not only of public interest but of public concern, and he stated that if they had not heretofore been published, he would probably advocate doing so. It was also his opinion that to discontinue the publication of these data would constitute the exercising of a censorship on the basis that the public was not qualified to interpret the figures.

Following a statement by Governor Mills in which he concurred in the position taken by Governor Robertson, Governor Vardaman stated that he had intended only to suggest a reconsideration of the matter, the principal basis for his concern having been an apprehension that at a time when member bank earnings were tending downward the information might cause a public reaction which would be unjustified. Governor Vardaman went on to say that inasmuch as the other members of the Board were of the view that the practice should be continued, he did not wish to press the matter further at this time.

Messrs. Carpenter, Sherman, Kenyon, and Thurston then withdrew from the meeting.

Later the Secretary was informed by the Acting Chairman that the Board reviewed the proposed reclassification of four positions on its staff to Group V or higher in the Board's job classification plan. This discussion was held pursuant to the understanding at the meeting on July 21, 1954, and information concerning the proposed

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reclassifications was contained in a memorandum from Mr. Sprecher dated August 10, 1954, copies of which were sent to the members of the Board prior to this meeting.

The Secretary also was informed by the Acting Chairman that following the discussion the Board, pursuant to the recommendations contained in memoranda from Mr. Young dated July 21, 1954, and August 10, 1954, respectively, approved, effective August 15, 1954, an increase in the basic annual salary of Arthur L. Broida, Economist in the Division of Research and Statistics, from \$7,640 to \$8,360, and an increase in the basic annual salary of Lorman C. Trueblood, Economist in the same Division, from \$9,160 to \$9,600.

The Acting Chairman further advised the Secretary that during the meeting the Board gave consideration to a memorandum from Mr. Sprecher dated August 10, 1954, regarding a revision of the classification structure for the Board's field examining work and the development of a proposed plan for the progressive advancement of examiners within that structure.

After discussion of the memorandum the Board approved unanimously, effective August 29, 1954, the following recommendations contained therein:

(1) That the titles of the following employees in the Division of Examinations be changed from Federal Reserve Examiner to Senior Federal Reserve Examiner, their designation as Federal Reserve Examiners being continued:

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J. C. Smith
 J. T. Kelley
 W. D. Dougal
 J. F. Clark
 R. W. Cooke
 L. M. Schaeffer

(2) That the following employees in the Division of Examinations, currently serving as Assistant Federal Reserve Examiners and holding that title, be designated Federal Reserve Examiners, with that title:

W. B. Lassen
 E. W. Lyster
 J. E. McGeary
 K. P. Wendt

(3) That a progressive salary advancement plan up to the minimum salary rate for Group Q for members of the field examining staff, as described in an attached memorandum from Mr. Sprecher to Governor Robertson dated August 5, 1954, and Table B attached thereto, be adopted by the Board.

(4) That the respective salary rates proposed in Table A of Mr. Sprecher's memorandum to Governor Robertson dated August 5, 1954, for employees occupying the positions affected be approved by the Board. The changes in basic annual salaries thus approved were as follows:

<u>Name and Title</u>	<u>Basic Annual Salary</u>	
	<u>From</u>	<u>To</u>
W. D. Dougal, Senior Federal Reserve Examiner	\$8,040	\$8,360
L. M. Schaeffer, Senior Federal Reserve Examiner	6,540	7,040
W. B. Lassen, Federal Reserve Examiner	5,685	5,940
E. W. Lyster, Federal Reserve Examiner	5,685	5,940

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Salary increases, effective August 29, 1954: (continued)

<u>Name and Title</u>	<u>Basic Annual Salary</u>	
	<u>From</u>	<u>To</u>
J. E. McGeary, Federal Reserve Examiner	\$6,250	\$6,540
K. P. Wendt, Federal Reserve Examiner	5,500	5,940
M. F. Johnson, Assistant Federal Reserve Examiner	5,370	5,560
C. A. Smith, Assistant Federal Reserve Examiner	5,245	5,435
A. W. Hammons, Assistant Federal Reserve Examiner	3,920	4,205
W. R. Mernah, Assistant Federal Reserve Examiner	3,920	4,205
E. W. Lowe, Assistant Federal Reserve Examiner	3,795	3,920
G. V. Pirilla, Assistant Federal Reserve Examiner	3,795	3,920
E. M. Tangney, Assistant Federal Reserve Examiner	3,410	3,535

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 10, 1954, were approved unanimously.

Memoranda from Mr. Dembitz, Assistant Director, Division of International Finance, recommending that the resignations of the following employees in that Division be accepted, effective the dates indicated:

<u>Date of Memorandum</u>	<u>Name and Title</u>	<u>Effective date</u>
8/6/54	Richard M. Kirby, Economist	8/18/54
8/9/54	Marian E. Gochenour, Clerk	9/17/54
8/10/54	Ann M. Roberts, Clerk-Stenographer	9/17/54

Approved unanimously.

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Telegram to Mr. Leslie N. Perrin, Consultant and Member of the Executive Committee, General Mills, Inc., Minneapolis, Minnesota, prepared pursuant to action taken by the Board on August 6, 1954, and reading as follows:

Effective August 16, 1954, Board of Governors has designated you Chairman and Federal Reserve Agent at the Federal Reserve Bank of Minneapolis for the remaining portion of the year 1954, and has fixed your compensation as such on uniform basis fixed for same position at other Federal Reserve Banks, i.e., at same amount as aggregate of fees payable during same period to any other director for attendance corresponding to yours at meetings of board of directors, executive committee, and other committees of board of directors.

Your acceptance by collect telegram will be appreciated.

The Board will hand to press a statement with respect to your appointment on Thursday afternoon for release in the morning papers of Friday, August 13.

Approved unanimously.

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

In connection with the examination of the Federal Reserve Bank of New York made by the Board's examiners as of March 19, 1954, it was reported that 44 cases of apparent or possible violations of the criminal provisions of the banking laws of the United States had come to the New York Bank's attention in the interval between examinations, that 26 of these cases were reported to the United States Attorney, the Federal Bureau of Investigation, and the Board, and that in the remaining 18 cases it was deemed unnecessary to transmit reports to the authorities.

A review of the 18 unreported cases indicates that some of them come within the category of misdemeanors and, under the Board's outstanding instructions, the Federal Reserve Banks are authorized to exercise their sound discretion with respect to making formal reports of such offenses. However, a few of the unreported cases seem to involve facts from which it appears that felonies were or may have been committed.

The Board's letter of August 19, 1948 states that in those cases where it appears probable, even though not entirely clear, that a violation of the banking laws constituting

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a felony may have occurred, reports should be made. It is to be noted that the instructions on this subject do not limit reports only to those situations where in the judgment of the Bank there is sufficient evidence to secure a conviction. Questions of prosecution, of course, are matters solely for determination by the Department of Justice.

In the circumstances, it will be appreciated if your Bank will reconsider the cases mentioned above in accordance with the principles stated in the Board's letter of August 19, 1948 and in this letter, with a view to making a report to the authorities in the usual way of all cases in which it appears from the available information that the commission of a felony was probable even though not entirely clear, and even though the identity of the offender may not be known.

Approved unanimously.

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

In connection with the examination of the Federal Reserve Bank of Chicago made by the Board's examiners as of May 28, 1954, it was reported that 14 cases of apparent or possible violations of the criminal provisions of the banking laws of the United States had come to the Chicago Bank's attention in the interval between examinations, that seven of these cases were reported to the United States Attorney, the Federal Bureau of Investigation and the Board, and that in the remaining seven cases it was deemed unnecessary to transmit reports to the authorities.

A review of the seven unreported cases indicates that some of them come within the category of misdemeanors and, under the Board's outstanding instructions, the Federal Reserve Banks are authorized to exercise their sound discretion with respect to making formal reports of such offenses. However, others of the unreported cases seem to involve facts from which it appears that felonies were or may have been committed. In addition, it seems probable that, even though there was no loss or embezzlement, the check-raising incident reported to the examiners by the General Auditor and discussed on page 31 of the report of examination may have constituted a felony.

The Board's letter of August 19, 1948, states that in those cases where it appears probable, even though not entirely

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clear, that a violation of the banking laws constituting a felony may have occurred, reports should be made. It is to be noted that the instructions on this subject do not limit reports only to those situations where in the judgment of the Bank there is sufficient evidence to secure a conviction. Questions of prosecution, of course, are matters solely for determination by the Department of Justice.

In the circumstances, it will be appreciated if your Bank will reconsider the cases mentioned above in accordance with the principles stated in the Board's letter of August 19, 1948 and in this letter, with a view to making a report to the authorities in the usual way of all cases in which it appears from the available information that the commission of a felony was probable even though not entirely clear, and even though the identity of the offender may not be known.

Approved unanimously.

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

This refers to the Board's letter of February 16, 1954 in which the Federal Reserve Banks were requested to have a review made of the situation with respect to absorption of exchange charges in their respective districts.

Replies have been received from all the Federal Reserve Banks regarding this matter and there is enclosed for your information a confidential memorandum prepared in the Board's Division of Bank Operations which summarizes the responses of the Reserve Banks. This memorandum reflects generally the situation throughout the country, on the basis of the replies received, as to absorption of exchange charges by member banks, compliance by member banks with the principles of the Board's letter of June 22, 1945, and arrangements by member banks with nonmember banks for the collection of nonpar items.

It will be appreciated if, after reviewing the enclosed memorandum reflecting the situation throughout the country, you will give the Board the benefit of any suggestions you may have as to any constructive steps that might be taken to meet this problem. In this connection it has been noted that there are some comments to the effect that the present record-keeping requirements in connection with the absorption of

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exchange in amounts up to \$2 may be unduly burdensome and, if this is a problem to any extent in your district, the Board would like to have the benefit of any specific suggestions you might have as to how these record-keeping requirements might be appropriately modified in order to simplify them and at the same time maintain their purpose of providing examiners with adequate information.

It is contemplated that copies of the enclosed memorandum will be sent to the Comptroller of the Currency and to the Federal Deposit Insurance Corporation after the Board has the benefit of any further suggestions that may be received from the Federal Reserve Banks.

Approved unanimously.

Letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., (Attention: Mr. L. A. Jennings, Deputy Comptroller of the Currency), reading as follows:

Reference is made to a letter from your office dated July 21, 1954, enclosing photostatic copies of an application to convert the Florida Bank & Trust Company at West Palm Beach, West Palm Beach, Florida, into a national bank 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 Atlanta, discloses favorable findings with respect to the factors usually considered in connection with such proposals. The Board of Governors, therefore, 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.

Letter to Mr. William S. Woods, President, Trust Company of Georgia Associates, Atlanta, Georgia, reading as follows:

Your letter of July 23 to Mr. Malcolm Bryan included a request that representatives of Associates be given an opportunity to confer again with members of the Board, or

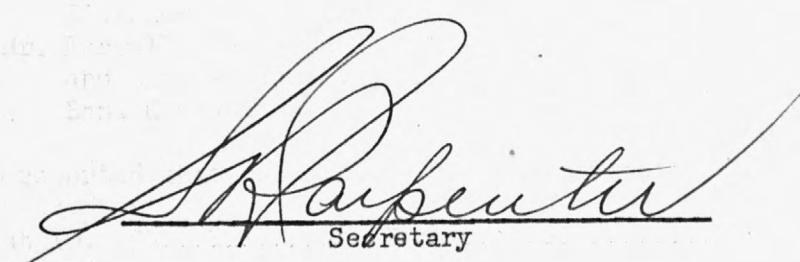
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its staff, with respect to Associates' acquisition of stock of the DeKalb National Bank, Brookhaven, Georgia, which has been the subject of previous correspondence and conferences.

The Board will be glad to afford an opportunity for further discussion of this matter. If you will suggest alternative days, either this month or in September, that would be convenient for representatives of Associates, the Board will designate an appropriate date and hour for the conference, subject to your confirmation.

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


Secretary