

A joint meeting of the Board of Governors of the Federal Reserve System and the Presidents of the Federal Reserve Banks was held at the Federal Reserve Building in Washington, D. C., on Wednesday, September 22, 1954, at 2:30 p.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Vardaman
Mr. Mills
Mr. Robertson
Mr. Miller
Mr. Balderston

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman

Messrs. Erickson, Sproul, Williams, Fulton, Leach, Bryan, Young, Johns, Powell, Leedy, Irons, and Earhart, Presidents of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco, respectively

Mr. Holland, Secretary of the Conference of Presidents of the Federal Reserve Banks

At the request of Chairman Martin, Mr. Riefler, who had been designated by the Board as its advisory representative on the National Voluntary Mortgage Credit Extension Committee, reviewed the provisions of the Housing Act of 1954 relating to the voluntary program, along with the purposes of the program. He also commented on the organizational meeting of the national committee which was held several weeks ago, stating that the meeting was devoted principally to housekeeping problems and discussion of a statement of policy, which he anticipated would be put in final form shortly. Mr. Riefler went on to say that at the next

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meeting of the committee, to be held on September 24, one of the principal items of business would be the appointment of the regional committees provided for under the program. He had been informed that it was planned to establish about twenty such committees, that they would be organized more or less along State lines in view of the fact that mortgage laws vary from State to State, and that there would be representation on the committees of the same classes of institutions as were represented on the national committee. He said that one question which no doubt would come up was whether a Federal Reserve representative should be added to each regional committee as an advisory member, as in the case of the national committee, and that a second question was whether the regional committees, or at least some of them, depending on the location of their headquarters, would be permitted to use Federal Reserve facilities for meeting purposes.

Chairman Martin stated that thus far the Board had taken a general position against allowing the regional committees to make use of Federal Reserve facilities, that the Housing and Home Finance Administrator, Mr. Cole, had conferred with him on the matter, that at the conclusion of their conversation Mr. Cole indicated that he would make another proposal, but that no further proposal had yet been received. He went on to say that the views of the Presidents would be of assistance to the Board in its further consideration of this question and the question of Federal Reserve representation on the regional committees.

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The Presidents who expressed views were unanimously of the opinion that it would not be necessary or desirable to have Federal Reserve representatives sit as advisory members of the local committees. Reasons given, among others, were (1) that if policy was to be established at the national level, Federal Reserve representation on the national committee would seem to suffice, and (2) that the voluntary program was concerned principally with activities outside the usual areas of interest of a Federal Reserve Bank. As to the matter of permitting the regional committees to hold meetings at Federal Reserve buildings, there was some difference of opinion among the Presidents as to whether this would be desirable. It was recognized that the holding of meetings on Federal Reserve premises might lead to requests for additional services or accommodations.

Chairman Martin concluded the discussion by stating that the views expressed by the Presidents were helpful to the Board and that the Presidents would be kept informed of developments.

Mr. Riefler then withdrew from the meeting.

Before this meeting there had been submitted to the Board a memorandum listing the topics which the Presidents wished to discuss at this joint meeting. The topics, the statement of the Presidents with respect to each, and the discussion at this meeting were as shown below. In introducing the topics, Chairman Young noted that a number of the statements were in the nature of reports for the information of the Board of Governors concerning which the Presidents intended only a few amplifying remarks.

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1. Changes in check collection system. The Conference agreed to accept the report of the Joint Committee on Check Collection System, to give general approval to the recommendations therein (without, however, expressing an opinion on the return of unpaid items directly to the first endorsing bank) and to indicate that the Federal Reserve Banks are prepared to cooperate with the American Bankers Association and the Association of Reserve City Bankers in implementing the report. The Conference noted that without the active support of both Associations the chances of making the recommendations effective are remote. It was understood that implementation of the report would be considered at the next meeting of the Conference, after receipt of information as to the action taken by such Associations with respect to the report.

President Erickson, Chairman of the Committee on Collections and Accounting, made a statement regarding the consideration given by the Presidents' Conference to this matter in which he brought out that the Presidents felt that they should take a position on the report at this time (except as to the one item noted above) in view of the fact that the report was now receiving consideration within the American Bankers Association and the Association of Reserve City Bankers and might be acted upon by those associations in the near future. He said that in notifying the associations of its position, the Presidents' Conference would make it clear that the recommendations in the report could not be put into effect without the active support of the two groups.

2. Changes in the Rules and Regulations of the Retirement System to maintain integration with the Social Security Act as amended. The Presidents reviewed the integration of the Retirement System

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of the Federal Reserve Banks with Social Security in the light of the 1954 amendments to the Social Security Act, and agreed with the recommendation of the Retirement Committee that no consequent change in the Rules and Regulations of the Retirement System was advisable at this time.

President Johns, Chairman of the Committee on Personnel, made a statement in which he described why certain provisions of the Social Security Amendments of 1954, particularly the increase in the amount of salary taken into consideration for social security purposes and the increase in the monthly amount of primary social security benefits, had caused the Retirement Committee at a recent meeting to consider whether any changes in the rules and regulations of the Retirement System of the Federal Reserve Banks would be advisable. He said that the Retirement System was also aware of certain Congressional criticism at the time the Social Security Amendments were being considered with regard to duplication of benefits and so-called "windfalls", and for that reason the committee felt that the System should be attentive to the possibility that such "windfalls" might be inherent in the integration of social security with the Federal Reserve Retirement System, especially because of the operation of this year's social security legislation.

President Johns then summarized in some detail the reasons which lead the Retirement Committee to make, and the Presidents' Conference to concur in, recommendations that no changes in the rules and regulations in the Retirement System would be advisable, at least so long as it could be shown that the combination of social security taxes and Federal Reserve

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contributions to the Retirement System did not increase the total cost to the Reserve Banks. As to the cost to employees, President Johns said that if the contributions to the Retirement System were not reduced, the "take home" pay of employees would be reduced to some extent, but that the Retirement Committee and the Presidents' Conference felt that this consequence would not cause adverse personnel reactions and that such a reduction was to be preferred to a reduction in the annuity portion of the retirement allowance.

Turning to a somewhat related matter, Chairman Martin commented that the Board of Governors had concluded unanimously that the provisions of the Federal Employees' Group Life Insurance Act of 1954 were applicable to the Board's employees. He said that, accordingly, new employees of the Board would have the coverage of insurance under the new Act automatically, unless they elected to waive it, and that efforts were being made to work out a plan under which present employees would have the option of coverage under the new law or continuing their coverage under the present group life insurance policy written for the System by the Connecticut General Life Insurance Company. At the Chairman's request, Mr. Carpenter commented on preliminary discussions with Connecticut General which he said indicated that the Company would be agreeable to an amendment to its policy with the System, relating only to employees of the Board, which would accomplish satisfactorily the program which the Board had in mind without any adverse effect on the coverage provided in the same policy for the personnel of the Federal Reserve Banks.

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3. Expenses chargeable to personnel, research, and bank and public relations functions.

The Conference considered the June 10, 1954 report of the ad hoc committee appointed to review the functional distribution of expenses in the areas of personnel, research, and bank and public relations. The report was approved in principle, and was referred to the Committee on Collections and Accounting for further refinement of specifications of proposed functional classifications and with instructions to test the proposed classifications as they would apply to 1955 Reserve Bank budgets. The Committee was directed to report the results of its study at the December meeting of the Conference.

Following a statement by President Erickson of the reasons underlying the action taken by the Presidents' Conference, Governor Mills commented if the plan of the ad hoc committee offered as many advantages as it appeared to, it would seem desirable that everything possible be done to expedite putting the recommendations into effect.

President Erickson responded that time did not permit applying the proposed classifications in preparing the 1955 Federal Reserve Bank budgets and that certain points with regard to the integration of the research and the bank and public relations budgets appeared to require clarification. He said that the Presidents had in mind that the necessary clarification could be achieved by testing the new classifications on the basis of the 1955 budgets and that the Presidents' Conference would then be able to take action at its December meeting with a view to using the new classifications in preparing the budgets for 1956.

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4. Reimbursement for expenses in handling depository receipts. The Conference considered the July 26, 1954 Treasury request for a re-appraisal of reimbursable costs in connection with depository receipt operations performed by the Reserve Banks for the Treasury. On the basis of revised cost estimates and contemplated changes in methods of operation, the Conference concurred in the recommendation of the Fiscal Agency Operations Committee that a uniform reimbursement rate of \$.11 per validated receipt should be established for fiscal year 1955. The Conference also directed the committee to undertake a general review of System policies with respect to reimbursement for depository and fiscal agency operations.

President Leach referred to a conference concerning proposals and procedures in handling fiscal agency operations which he, as Chairman of the Committee on Fiscal Agency Operations, had with Treasury Department representatives on June 30, and on which he reported to the members of the Presidents' Conference in a memorandum dated July 7, 1954, a copy of which he also sent to the Board. He recalled that during the meeting reference was made to the question of reimbursement to the Federal Reserve Banks for handling postmasters' deposits and to the understanding that the Treasury or the Post Office Department would request appropriations for that purpose. He said it appeared that in the usual course hearings with respect thereto would be held before the appropriate subcommittee of the House Appropriations Committee early in 1955, and that at the June 30 meeting Treasury representatives expressed the view that reference to the request at the hearings might cause the whole question of reimbursement to the Federal Reserve Banks for fiscal agency operations to be brought up for discussion.

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President Leach then referred to the prevailing practice under which the Federal Reserve Banks are reimbursed for the approximate cost of their fiscal agency operations but not for depositary functions, and stated that the legal staffs of the Banks had not been able to discover reasons from the standpoint of the law why there should be a distinction between these functions so far as reimbursement was concerned. He said that from the discussion at the meeting of the Presidents' Conference this week he did not sense a feeling that the Federal Reserve System should go to the Congress voluntarily and seek a definition, but that there was a feeling that the System should attempt a definition itself so that if the question were raised the position of the System as to reimbursement could be presented. President Leach pointed out that there was also the related question of whether the Reserve Banks should obtain reimbursement on the basis of actual expenditures or whether, as in certain recent instances, reimbursement should be fixed on the basis of an agreed System rate. He noted that on this question there was some difference of opinion among the Presidents. In the circumstances, President Leach said, the Presidents' Conference requested the Committee on Fiscal Agency Operations to reexamine the present situation in respect to reimbursement, including the reasons why it had developed, and make recommendations as to what changes, if any, would be advisable.

With respect to the Treasury request commented upon in the above statement submitted by the Presidents' Conference, President Leach said

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that the Conference concurred in the recommendation of its committee that a rate of \$.11 per validated receipt be fixed, feeling that a reduction below that rate would not be justified since to do so would result in some part of the cost of the operation for the System as a whole being shifted from the Treasury to the Federal Reserve Banks.

5. Plans for emergency operation by the Federal Reserve System. The Conference gave attention to the Board letter of September 3, 1954, requesting a review of defense planning for the continuation of operations of the Reserve Banks in case of emergency, and the consideration of measures that the individual Reserve Banks, the Conference of Presidents, and the Board of Governors might take to assure, so far as practicable, effective functioning of the Federal Reserve System in the event of emergency. To facilitate a coordinated System reappraisal in the light of recent developments, the Conference established a special committee on emergency operations consisting of Messrs. Erickson, Sproul, Williams, and Fulton. The committee was directed to operate in conjunction with appropriate Board representatives in re-evaluating all System planning with respect to emergency operations, disseminating information which might be of assistance in such planning, and making recommendations concerning additional preparations and precautions which may be deemed appropriate.

The appointment of the special committee was noted by the Board and Chairman Martin stated that Governor Robertson would be available to cooperate with that committee in any way possible.

6. Development of a currency counting and sorting machine. The Presidents reviewed the advisability of System action to underwrite development of a currency counting and sorting machine, giving consideration to the unsuccessful outcome of negotiations with

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Burroughs Corporation and the September 10, 1954 report of the Subcommittee on Electronics. The Conference concurred in the recommendation of the Subcommittee that negotiations on a developmental contract should be opened with Batelle Memorial Institute, with the provision that discussions should be carried forward by the New York Federal Reserve Bank along the same lines which had been followed in connection with negotiations with Burroughs.

Following a statement by President Earhart, Chairman of the Committee on Miscellaneous Operations, concerning developments in connection with this matter, the report of the Presidents' Conference was noted without further comment.

This concluded discussion of the items listed in the memorandum submitted to the Board by the Presidents' Conference.

7. Coin wrapping service and delivery of currency to city banks.

Governor Mills referred to the frequency of requests by representatives of commercial banks that the Federal Reserve Banks provide coin wrapping service without charge and that the Reserve Banks make free deliveries of currency to member banks situated in cities where Reserve Banks or branches are located. He stated that it would be helpful to have the views of the Presidents on these matters.

Each of the Presidents then made a statement, from which it appeared that there was no sentiment in favor of making free deliveries of currency to member banks in Reserve Bank or branch cities, some of the Presidents indicating that the most pressure was being exerted by member

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banks who would like to have currency delivered to their city branches and it did not seem reasonable to expect the Federal Reserve System to provide such service.

Of those Presidents whose banks now provide wrapped coin, all except one (Boston) were inclined to the view that reimbursement should be asked for this service. Some of the Presidents reported that their banks were not entirely satisfied with the results of the coin wrapping experiment and that they would not supplement the current service in the absence of some change in System policy. President Erickson reported that a great deal of pressure had been brought to bear on the Boston Bank, particularly by the smaller member banks in the District, to provide wrapped coin without cost. He said that the large member banks in Boston do not furnish wrapped coin to their correspondents and that it had occurred to him that it might be reasonable for the Federal Reserve Bank to provide a stated dollar amount of wrapped coin each week to all member banks requesting it. He felt that in this way the requirements of most of the smaller banks would be satisfied without undue expense to the Reserve Bank.

The Presidents of the three Banks which do not wrap coin indicated that they would be reluctant to institute the service. They had not been faced with pressure to supply wrapped coin to the extent which President Erickson had mentioned in the Boston District, and they felt the service could not be justified on economic grounds since the principal result might be to stimulate the flow of loose coin into the Reserve Bank from outlying

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points in the District. The latter point also was mentioned by the Presidents of the Reserve Banks that now furnish wrapped coin as a reason for their not wishing to provide such a service except on a reimbursable basis. It was further noted that the provision of free wrapped coin might bring about a demand which the Reserve Banks could not handle without additional space and equipment.

8. Request that a member bank provide payroll services off the banking premises for a depositor.

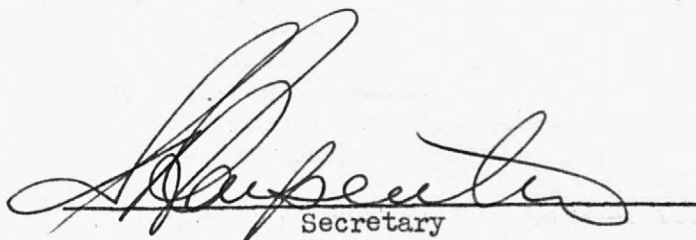
Governor Mills stated that a member bank in the Boston Federal Reserve District recently reported to the Board that it had been asked by a large depositor to provide payroll services on the depositor's premises and that the member bank requested a ruling from the Board as to whether the providing of such services would be regarded as a violation of the Board's Regulation Q. He said that in the Board's discussion of the matter the question whether this might constitute branch banking in violation of the law also arose. Governor Mills went on to say that the Board did not make the requested ruling, this position being in conformity with its general policy of not ruling on hypothetical questions or in circumstances where the full facts are not available. He brought out, however, that according to the member bank, the depositor had advised that services of the kind in question were being furnished without cost in one or more of the other Federal Reserve Districts and without any question having been raised as to a possible violation of Regulation Q.

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Several of the Presidents commented on various practices in their respective Districts which had some similarity to the practice mentioned by Governor Mills but none of the Presidents indicated that they were aware of any instance where member banks were providing a service of the kind described.

Thereupon the meeting adjourned.



Secretary