

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 Thursday, March 3, 1955, at 9:30 a.m.

PRESENT: Mr. Szymczak, Acting Chairman
Mr. Vardaman
Mr. Mills
Mr. Robertson
Mr. Balderston

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary

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

Before the 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 follows:

Word was received that Governor Mills was detained in his office by a visitor and while awaiting his joining the meeting there was a discussion of the items listed under No. 10 in the memorandum regarding which no action by the Board was called for at this time:

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10. Additional items of information arising out of the current Conference meeting.

a. The Special Committee on Emergency Operations reported the formulation of a course of action to be pursued in the study of System emergency planning and the appointment of five subcommittees (on cash, checks, Treasury operations, legal aspects, and general arrangements) to carry out various aspects of the study. The Committee contemplated a meeting with representatives of the Office of Defense Mobilization on March 2, 1955, following which it expected to be able to report more definitively on the place allotted to the Federal Reserve System in the framework of over-all mobilization planning.

President Sproul stated that information collected from the Federal Reserve Banks by the Special Committee on Emergency Operations made it apparent that, in the light of interim developments, the earlier planning of the Banks was outmoded. He said that a meeting with representatives of the Office of Defense Mobilization was held yesterday, that that office agreed to draw up a defense mobilization order for the Federal Reserve Banks which might help to pave the way for later establishment of, either at the local civil defense level or in connection with whatever regional authorities might be set up in an emergency, priorities on transportation, communication, equipment, and the like. He said that his Committee had scheduled its studies in the hope of being able to report on a program to the Presidents' Conference before its next meeting, so that it could then be discussed by the Conference and with the Board of Governors.

b. The Subcommittee on Cash, Leased Wire, and Sundry Operations was reported

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to have completed the review of responses to its first questionnaire concerning the lack of uniformity among Federal Reserve Banks in currency and coin services. A second questionnaire has been distributed to the Reserve Banks in order to develop the reasons for important variations in services.

c. In view of the proposed Federal Reserve participation in the bankers' acceptance market, the Conference felt it advisable to authorize the reestablishment of a Subcommittee on Bankers' Acceptances.

d. The Conference considered and approved the February 18, 1955 report of the Subcommittee on Destruction of Records containing recommendations for the establishment of minimum retention periods for records relating to United States Savings Bonds.

e. The Joint Committee on Check Collection System, as a result of comments received on its report from representatives of the American Bankers Association and the Association of Reserve City Bankers, prepared and distributed a supplementary statement addressed to such comments. It was expected that this material would be taken under consideration by the governing bodies of the two Associations at meetings in April.

Except for explanatory comments by members of the Presidents' Conference, there was no discussion of these topics. President Earhart stated that the new Subcommittee on Bankers' Acceptances would be composed of Messrs. R. G. Rouse, Vice President, Federal Reserve Bank of New York, as Chairman, H. F. Slade, Vice President, Federal Reserve Bank of San Francisco, and Parker B. Willis, Financial Economist, Federal Reserve Bank of Boston.

At this point Governor Mills joined the meeting.

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f. The Committee on Bank Supervision was directed by the Conference to undertake studies of certain issues relating to bank supervision. The Committee was authorized to proceed, in such sequence as it deemed advisable, with general studies of the use of Section 30 of the Banking Act of 1933 as an instrument of bank supervision, control of banks by individuals who are not officers or directors but are nonetheless in a position to dictate unsound banking policies, banking concentration and possible lessening of competition, competitive relationships between commercial banks and other financial institutions, use of preferred stock by commercial banks in other than emergency situations, and possible authorization of commercial banks to underwrite and distribute revenue bonds or other municipal securities not general obligations of states or municipalities.

President Powell said that the Committee on Bank Supervision would attempt to avoid duplicating work being done in these fields elsewhere and that the Committee would like to have any suggestions regarding the order in which the studies should be taken up. Since he had a case in his district which might require the use of a Section 30 proceeding, President Powell was inclined to study the use of that section first.

Governor Robertson suggested early attention to the matter of banking concentration and possible lessening of competition, and to competitive relationships between commercial banks and other financial institutions. He thought, however, that various aspects of the last subject went beyond the field of bank supervision and that at some time it might be advisable to suggest to the Congress the establishment of a national

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commission to study the problems involved. As to the proposal whereby commercial banks would be authorized to underwrite and distribute revenue bonds or other municipal securities which are not general obligations of States or municipalities, he thought it possible that some solution might be worked out between the commercial banks and the investment bankers; if not, a study of this topic at an early date also would be advisable.

g. In consideration, among other things, of the pending fundamental review of the Retirement System, the Conference authorized the Committee on Personnel to drop for the present its proposed study of employee fringe benefits provided by the Federal Reserve Banks and other employers.

h. The Committee on Personnel was authorized to explore possible new procedures for supplementing retirement allowances in cases of involuntary separation from service before age 65 for reasons other than entry into military service. Such procedures would be intended to take the place of arrangements invalidated by the amendment to Section 9 of the Rules and Regulations of the Retirement System and the rescinding of the Board's letter S-741.

Reports were made by President Johns on these topics but there was no discussion of importance regarding them.

1. Fundamental review of Retirement System. The Presidents considered the suggestion put forward by the Executive Committee of the Retirement System and concurred in by the Board in its letter of February 4, 1955, that a fundamental review of the Retirement System be undertaken. It

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was the consensus of the Conference that such a review was very much to be desired, and that the review should be focused primarily upon the basic objectives of the Retirement System, the benefits provided to members, and the attendant costs. It was further agreed that, while such an undertaking might best be supervised by the Executive Committee of the Retirement System as presently constituted, the planning and execution of the study would require the services of disinterested experts in the field. Accordingly, the Presidents suggested that as a first step the Executive Committee should assemble information as to the consultants or consulting firms who might appropriately be considered for employment and prepare a broad outline of the proposed study and estimates of the costs involved for consideration at a subsequent Conference meeting.

Following a statement by President Bryan concerning (1) the circumstances which prompted the proposal for a fundamental re-examination of the Federal Reserve Retirement System and (2) the procedure suggested at this meeting of the Presidents' Conference, Governor Mills pointed out that according to the proposed schedule nothing more than exploratory and preliminary work would be accomplished until the June meeting of the Presidents' Conference. He raised the question whether further steps might not be taken prior to that date so that if the matter should be brought up by outside parties at any time, it would be possible to respond that a broad study of the Retirement System was in progress.

President Bryan commented to the effect that while he also favored expediting the study as much as possible, there were a number of steps to be taken and problems to be explored. The trustees of the

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Retirement System would have to be advised, the cost of the study would have to be estimated, the question whether the cost would be borne by the Federal Reserve Banks or by the Retirement System would have to be considered, and there would have to be an exploration of the outside consultants or consulting firms who might be considered for employment. In addition, he felt that the Executive Committee should not have the responsibility for deciding on the scope of the study without consultation with the Board of Governors and the Presidents' Conference. President Williams referred to the fact that in addition to the technical phases of the review, a number of questions of broad social policy were involved, such as the question of a contributory versus a noncontributory retirement system.

Governor Balderston said that, like Governor Mills, he was concerned that between now and the time that the exploratory phase of the program was completed something conceivably might arise which would have such an effect on the Retirement System as to endanger the competitive relationships of the Federal Reserve Banks with other employers and affect adversely the ability of the Banks to recruit and maintain capable staffs. He pointed out that the selection of a qualified and impartial outside consultant was not an easy task, and he suggested that the Executive Committee be authorized to employ experts to advise with regard to the selection of the consultant. He also suggested that the Federal Reserve Bank personnel officers be requested to collect data, in whatever ways were deemed most advisable, regarding the retirement and other benefits provided

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by banks and other organizations which compete with the Federal Reserve Banks in the labor market. While he recognized that the consultant eventually employed to make the broad study of the Retirement System probably would supply the same type of information in a more comprehensive form, Governor Balderston felt that the work of the Reserve Bank personnel officers would result in some worth-while data being made available before June so that, if any inquiry should be made, it could properly be said that the Federal Reserve System was already engaged in a review of the Retirement System.

President Bryan indicated that a procedure of the kind suggested by Governor Balderston would be agreeable to him, and he proposed that the survey of the retirement and other benefits provided by competing employers be made under the direction of the Presidents' Conference Committee on Personnel. The Chairman of that Committee, President Johns, said that such a survey could be initiated promptly and that a first step would be for the Subcommittee on Personnel to prepare specifications so that the survey could be made on a uniform basis.

No objection was interposed to action being taken along the lines suggested, and Governor Szymczak concluded the discussion by saying that the Presidents' Conference would be advised regarding such further views as the Board might have.

2. Review of policies regarding reimbursable expenses.
The Presidents considered in detail the November 30, 1954 report of the Subcommittee of Counsel on Fiscal Agency Operations as to considerations underlying Reserve Bank receipt of reimbursement for fiscal

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agency and depositary functions performed for the Treasury and possible alternative policies which might be pursued in the future in this respect. The Conference agreed that the most advisable course was a continuation of the present policy, i.e., to seek reimbursement for all fiscal agency functions but not to do so for depositary functions except in unusual cases.

Studies under way concerning three particular aspects of this general policy--the variations among Reserve Banks in unit costs of reimbursable operations, the advisability of eliminating certain service costs from reimbursable expenses, and the desirability of shifting reimbursement for some fiscal agency functions from an actual cost to a uniform unit cost basis--will be submitted for consideration at a subsequent Conference meeting.

After discussing the comprehensive character of the review made by the Presidents' Conference, President Leach said that the various alternative policies which might be followed with respect to reimbursement for fiscal agency and depositary functions had been narrowed down to the procedure currently followed and one under which the Federal Reserve Banks would absorb all expenses incident to fiscal agency and depositary functions except functions performed for agencies and instrumentalities of the Federal Government. While it was the feeling of the Presidents that there was something to be said for the second alternative, particularly if the subject of reimbursement were coming up now for the first time, the Presidents concluded that a continuation of the present policy was preferable since it was an established procedure, it was understood by the Treasury Department, and appropriations had been sought

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and granted on this basis. Another reason was that adoption of the other policy might result in a tendency toward shifting to the Federal Reserve Banks functions which constitute essential parts of the business of various Government departments, thus circumventing the budgetary and appropriation procedures.

After stating that in the course of the study made by the Presidents' Conference he was impressed by the cooperative attitude at staff level in matters relating to the handling of fiscal agency and depository functions, President Leach mentioned the three studies referred to in the Presidents' memorandum, and with respect to the first of these said that the Presidents were concerned about existing variations in unit costs at the several Federal Reserve Banks. He pointed out that statements of such costs could be interpreted as reflecting varying degrees of efficiency, whereas there are noncontrollable factors that account for a substantial part of the variations. He expected that the study would result in reducing the differences and would bring out reasons for the remaining variations.

Governor Szymczak said that the Board would discuss the action taken by the Conference on this topic and advise the Presidents of its views.

3. Development of a currency sorting and counting machine. The Presidents considered the February 11, 1955 letter report of the Subcommittee on Electronics concerning two new developments regarding the designing of a currency sorting and counting machine. The Subcommittee noted the possibilities for electronic determination of the genuineness of paper currency, either in its

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present form or with the addition of certain elements in its manufacture, and requested the authority to retain Batelle Memorial Institute as an adviser on the technical aspects involved. The Conference approved this request, with the provisions that the Subcommittee confine its immediate investigations in this area to electronic identification of currency in its present form and that it not go further unless requested by the Treasury.

The Subcommittee also reported that the Johnson Fare Box Company had requested permission to undertake development of the mechanical part of a currency sorting and counting machine, such development to proceed at the Company's expense on Federal Reserve Bank premises with currency supplied by the Reserve Bank. The Subcommittee recommended, and the Conference agreed, that the request should be approved, with the reservations that the development work should not be done on Reserve Bank premises and that the requisite amount of currency should be supplied to the manufacturer under appropriate financial safeguards.

President Earhart said that if it developed that electronic determination of the genuineness of paper currency could not be made satisfactorily with the present form of currency, the Treasury Department would be consulted to determine whether that Department would be willing to explore, or would like the System to explore, the possibility of adding elements in the manufacture of paper currency which might make such electronic determination possible and practicable during the sorting operation.

4. Equipment for transmission of wire transfers of funds and C.P.D. transactions in clear language between Reserve Banks. The Conference gave attention to the comments contained in the February 14, 1955 letter report of the Subcommittee on Cash, Leased Wire, and Sundry Operations

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concerning the installation of equipment for transmission of wire transfers of funds and C.P.D. transactions in clear language between Reserve Banks. While such installation had been approved by the Conference at its December meeting, the actual charges involved in installation and rentals of additional circuits, and estimated costs of alterations of building facilities at the Richmond switching center, proved to be approximately \$7,400 higher than earlier estimates. The Conference felt it necessary to approve the incurrence of these increases in costs.

The Subcommittee also reported that the number of additional circuits required could be reduced by one through the use of substitute procedures in place of special form transmission of C.P.D. and A.D. transactions at nine branch offices which originate a small volume of such transactions. The Conference approved this alteration in planned facilities, and in addition requested the Subcommittee to review the need for special form transmission equipment at other offices originating a relatively small volume of C.P.D. and A.D. transactions, in the interest of minimizing System costs.

Following an explanatory statement by President Earhart, Governor Szymczak said that the Board had approved the original project and would now consider the revised program as approved by the Presidents.

5. Statement of objectives for the research activities of the Federal Reserve Banks. The Presidents considered the February 15, 1955 memorandum, "Basic Objectives of the Research Function in Federal Reserve Banks", which had been distributed by the Committee on Research and Statistics. After review of suggestions previously made by the Presidents and incorporated in the memorandum, the Conference approved the memorandum without further change.

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President Bryan said that the draft of statement presented in 1953 had gone through many revisions before finally being developed into its present form.

Governor Szymczak said that the revised statement would be considered by the Board and that advice concerning the Board's views would be transmitted to the Presidents' Conference.

6. Reimbursement to Federal Reserve Banks for verification and destruction of unfit currency. At its June 1954 meeting, the Conference had approved a rate of reimbursement of \$.30 per thousand pieces for verification and destruction of United States paper currency by the Reserve Banks during fiscal 1955, subject to renegotiation at the option of either the Federal Reserve System or the Treasury. Partly as a result of contemplated temporary increases in the volume of operations, the estimated average per unit costs during the first six months of 1955 were \$.2380 per thousand pieces for operations required by Treasury regulations and \$.2575 per thousand pieces for all operations involved. Accordingly, the Conference approved a rate of reimbursement of \$.25 per thousand pieces of currency verified and destroyed for the first six months of 1955.

President Leach made an explanatory statement concerning this matter which was noted without comment, it being understood that no action on the part of the Board was required.

Governor Mills withdrew from the meeting at this point in order to keep another engagement.

7. Reimbursement to Federal Reserve Banks for handling postal money orders. At its June 1954 meeting the Conference had approved a reimbursement rate of \$3.26 per thousand money orders

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handled during fiscal 1955, with the provision that this rate should be reviewed in six months, or after three months if a basic change in the nature of the operation should make this desirable. As a result of subsequent substantial changes in Reserve Bank operating procedures, the Subcommittee on Collections recommended, in its February 4, 1955 letter report, that the reimbursement rate per thousand pieces handled during fiscal 1955 be lowered to \$2.77 retroactive to October 1, 1954, and that the Post Office Department be informed that the Reserve Banks were making a review of the basic reimbursement formula in the light of recent developments. The Subcommittee also recommended that the Reserve Banks claim current (but not retroactive) reimbursement for processing domestic international money orders at the same rate as for domestic money orders. The Conference approved the recommendations of the Subcommittee.

President Erickson commented on this matter briefly, stating that the changes in Reserve Bank operations had been made possible by changes in the requirements of the Post Office Department. It was understood that the revised rate of reimbursement would be taken up with the Post Office Department in accordance with the usual procedure.

8. Desirability of bank holding company legislation.
The Conference took note of the unsettling influences within the banking structure stemming from the protracted controversy over bank holding company legislation, and recorded its position in favor of the early passage of appropriate legislation in this field. The Conference further indicated its general agreement with the position expressed by the Board with respect to the currently pending bank holding company bill.

President Leedy said that the Presidents' Conference appreciated the difficulties involved in the consideration of bank holding company

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legislation and that although the Presidents had not made a detailed analysis of the pending legislative proposals, it was the general view of the Conference that the Board's approach to the matter was a proper one.

9. Disposition of Section 13b surplus. The Presidents reviewed considerations pertinent to the final disposition of the surplus accumulated under provisions contained in Section 13b of the Federal Reserve Act and to the discharge of all attendant Reserve Bank obligations. It was the opinion of the Conference that such could not be accomplished without an act of Congress, and the Conference wished to inquire if the Board could supply any information concerning possible developments in this area.

The Presidents were informed of the position taken by the Board in its proposed report on bills S. 381 and S. 383, both relating to financing for small business, which report was submitted to the Bureau of the Budget on February 2, 1955, in accordance with the usual procedure. In the report the Board stated that, in keeping with views previously expressed as to the inappropriateness of System participation in the financing of business enterprises, the Board would favor repeal of the System's industrial loan authority under section 13b of the Federal Reserve Act and the payment to the Treasury by the Federal Reserve Banks of the amounts heretofore paid to the Banks by the Treasury in connection with operations under that section of the Act, all as provided in S. 381.

Turning to a related matter, Governor Szymczak said that the Board had given consideration to how to deal with the situation at the

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Federal Reserve Banks which have not had occasion in recent years to make section 13b loans and, consequently, the industrial advisory committees appointed by those Banks pursuant to that section of the law have no duties to perform. In these circumstances, he said, the Board had some question as to whether the continuation of the committees was necessary or advisable.

President Johns said that the St. Louis Bank had not been making any section 13b loans, but that the directors had appointed an industrial advisory committee from year to year because they understood that the law and the Board of Governors required them to do so. He went on to say that if the Board of Governors had any different view, the directors of the St. Louis Bank would prefer not to make such appointments in the future.

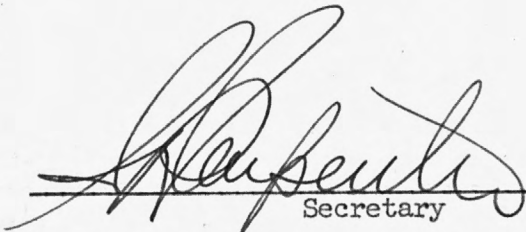
The Presidents of other Federal Reserve Banks having no industrial loan activity concurred generally in the position stated by President Johns. Some of the Presidents, however, stated that their Banks had made such loans in recent months and would need a committee to function the loans.

Since appointments to the advisory committees had been made for the current year beginning March 1, it was understood that further consideration would be given to the matter before that date in 1956 to determine whether some more appropriate arrangement than existed at the present time could be worked out.

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The meeting then adjourned.



Secretary