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 Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, March 18, 1955. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman  
 Mr. Szymczak  
 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  
 Mr. Johnson, Controller, and Director, Division of Personnel Administration  
 Mr. Solomon, Assistant General Counsel  
 Mr. Sprecher, Assistant Director, Division of Personnel Administration  
 Mr. Cherry, Legislative Counsel

The following matters, which had been circulated among the members of the Board, were presented for consideration and the action taken in each instance was as indicated:

Memorandum dated March 8, 1955, from Mr. Young, Director, Division of Research and Statistics, stating that he had been invited by the National Federation of Grain Cooperatives to give a talk on the economic outlook on March 29, 1955, at the opening session of the Federation's annual Spring Conference to be held in Washington, D. C., and that in the absence of objection he would be willing to undertake the assignment.

Acceptance of the invitation by Mr. Young was approved unanimously.

Letter to the Board of Directors, Southern Arizona Bank and Trust Company, Tucson, Arizona, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Dallas, the Board of Governors approves the

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establishment of a branch by the Southern Arizona Bank and Trust Company in Nogales, Arizona, provided the branch is established within six months from the date of this letter.

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

Telegram to Mr. Slade, Vice President, Federal Reserve Bank of San Francisco, reading as follows:

Retel March 9, 1955. Board will interpose no objections if American Trust Company, San Francisco, California, establishes additional facilities in Naval Supply Depot, Oakland, California, upon usual request of Treasury Department.

Approved unanimously.

Letter to Mr. C. Beatty, Hinsdale Federal Savings and Loan Association, Hinsdale, Illinois, reading as follows:

This is in response to your letter of March 3, 1955, to the Editorial Committee of the Federal Reserve Bulletin, in which you raise a question regarding the reference in the February issue of the Federal Reserve Bulletin to "savings and loan shares" and suggest that in the future such references be revised to read "savings and loan accounts".

While the Board of Governors recognizes the contribution that savings and loan associations have made to the development of home ownership and has no desire to see the savings and loan associations handicapped in their legitimate development of business, the Board feels that, if confusion is to be avoided in the fields of banking, savings, and investment, it is necessary that the differences between various types of institutions operating in these fields under Federal statutes or supervision be kept clear.

The change in terminology which you have suggested has been considered in past years in connection with legislative proposals affecting the Home Loan Bank System. It has been the position of the Board that the use of the term "savings account" could only result in greater confusion in the public mind as to the nature of share accounts sold by savings and loan associations to their shareholders and would lead to the general impression that these accounts are

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substantially the same as savings accounts in savings and commercial banks and subject to substantially the same degree of liquidity and terms of withdrawal.

The statute providing for the organization of Federal savings and loan associations provides that these associations shall raise their capital only in the form of payments on such shares as are authorized in their charter and prohibits such associations from accepting deposits or issuing certificates of indebtedness except for such borrowed money as may be authorized by regulations of the Home Loan Bank Board. It seems clear, therefore, that it was the intent of Congress that the funds of these associations should be obtained not from deposits but from the issuance of shares, and any reference to these shares as "savings and loan accounts" would seem to raise an implication that these accounts would be the same as, or similar to, ordinary savings deposits in a savings or commercial bank.

Approved unanimously, with a copy to the Federal Reserve Bank of Chicago.

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, St. Louis, and San Francisco approving the establishment without change by the Federal Reserve Banks of Boston and St. Louis on March 14, by the Federal Reserve Bank of San Francisco on March 16, and by the Federal Reserve Banks of New York and Philadelphia on March 17, 1955, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Reference was made to a memorandum from Mr. Solomon dated March 7, 1955, regarding proposed amendments to the Rules and Regulations of the Retirement System of the Federal Reserve Banks. The memorandum, which had been circulated to the members of the Board, referred to objections

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raised by the Internal Revenue Service in 1954 to the last paragraph of section 9 of the Rules and Regulations; to the appointment of a Special System Committee (on which Governor Mills represented the Board of Governors) to look into the problem and make recommendations; and to the proposal of the Special Committee that the third paragraph of section 9 be deleted and that a new section 5-A, reading as follows, be added to the Rules and Regulations:

Military and Other Special Service

Any member whose employment by an Employing Bank is discontinued upon his entry into military service, or into service for a purpose deemed in the public interest for not more than five years, may be granted substantially the same retirement allowance he would have been entitled to receive if he had remained in the employ of the Employing Bank during the period of such military or other governmental service and had continued to receive the salary he was receiving at the time of such discontinuation of employment, provided that the Employing Bank shall pay to the Retirement System the amount required to cover the full cost of any such retirement allowance. The Board of Trustees shall have the power to grant such retirement allowances under general rules of uniform application to all members, set forth in resolutions heretofore or hereafter adopted by the Board of Trustees and approved by the Board of Governors of the Federal Reserve System.

The memorandum stated that such amendments were acceptable to the Internal Revenue Service as complying with the requirements of the pertinent provisions of the Revenue Code of 1954 and that it was anticipated that the Board of Trustees of the Retirement System would recommend their approval to the Board of Governors. In that event, it was suggested that the Secretary of the Board, with the approval of Governor Mills, be authorized to advise the Retirement Committee of the Federal Reserve Retirement

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System that the Board of Governors approved the amendments.

During a discussion, inquiry was made as to how special cases of the types formerly handled under section 9 of the Rules and Regulations would be handled if the proposed amendments were made, and the response was given that it would be necessary to take care of any such case, other than one covered under the proposed section 5-A, outside of the Retirement System.

Thereupon, it was agreed unanimously that if the Board of Trustees of the Retirement System should recommend approval of the proposed amendments to the Rules and Regulations of the Retirement System, the Secretary of the Board, with the approval of Governor Mills, should advise the Retirement Committee that the Board of Governors approved the amendments.

Mr. Sprecher then withdrew from the meeting.

The following draft of letter for the signature of Vice Chairman Balderston to Chairman Fulbright of the Senate Banking and Currency Committee, which had been circulated to the members of the Board, was presented for consideration:

As you know, the Board sent to the Chairman of your Committee last year a copy of the report made by Arthur Andersen & Co. of that firm's audit of the Board's accounts for the year 1953. A copy of the complete report of the audit for the year 1954 is enclosed, including (1) financial statements as of December 31, 1954, together with Auditors' Certificate, (2) scope of examination, and (3) comments and suggestions for consideration.

In view of the interest which has been shown in these reports, you may wish to bring the attached report to the attention of all of the members of your Committee. Should you wish additional copies of the report, we will be pleased to make them available.

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Approved unanimously, together with an identical letter to Chairman Spence of the House Banking and Currency Committee.

The following draft of letter for the signature of Vice Chairman Balderston to the Honorable Arthur E. Summerfield, Postmaster General, which had been circulated to the members of the Board, was presented for consideration:

Reference is made to Chairman Martin's letter of June 30, 1954, advising that the Federal Reserve Banks would process postal money orders for the fiscal year beginning July 1, 1954, at a reimbursement rate of \$3.26 per thousand items, with the reservation that this rate might be reviewed after six months, or after three months if a basic change in the nature of the operation should make this desirable.

As a result of changes made by the Post Office Department in its accounting system, operating procedures of the Federal Reserve Banks in handling postal money orders were modified materially. The question, therefore, of whether a change in the rate of reimbursement for handling postal money orders would be in order was considered by a Federal Reserve committee which met at the Federal Reserve Bank of St. Louis on January 10-11, 1955; Mr. Marks of your Department attended the meeting.

The committee proposed to recommend that the reimbursement rate per thousand pieces handled during the fiscal year 1955 be reduced to \$2.77, retroactive to October 1, 1954, and that the Federal Reserve Banks include in their current claims for reimbursement, but not retroactively, domestic-international money orders which the Banks have been requested to process. Mr. Marks indicated to the committee that such proposals would be satisfactory to the Post Office Department.

The Conference of Presidents of the Federal Reserve Banks has approved the foregoing recommendations and the Board of Governors has concurred in that action.

In order to make the reduction effective from October 1, 1954, the Federal Reserve Banks in subsequent billings will make appropriate adjustments for excess amounts paid by the Post Office Department at the former rate of \$3.26 for money orders processed since September 30, 1954.

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You are also informed that the Federal Reserve Banks are making a review of the basic reimbursement formula for processing postal money orders in the light of recent developments.

Approved unanimously.

In connection with the foregoing letter, Mr. Carpenter stated that because of problems involved when the rate of reimbursement to the Federal Reserve Banks for processing postal money orders was originally fixed, the matter was handled by correspondence between the Board of Governors and the Post Office Department, whereas under the usual procedure in other fiscal agency matters, the appropriate committee of the Presidents' Conference, rather than the Board, corresponds with the Government agency concerned. He said that circumstances now permitted the handling of arrangements with respect to the rate for processing postal money orders in the usual manner and that such a procedure would be followed in the future unless there was some objection on the part of the Board of Governors.

No objection was interposed to the handling of the matter in the future in the manner suggested by Mr. Carpenter.

Pursuant to the understanding at the meeting yesterday, there had been sent to the members of the Board copies of a revised draft of letter to the Honorable William L. Dawson, Chairman of the House Committee on Government Operations, reporting on Bill H. R. 2643, which would direct the Comptroller General to make an audit of the Board of Governors, the Federal Reserve Banks, and the Federal Open Market Committee for the period December 23, 1913 to December 31, 1954. Copies of a draft of

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letter to the Director of the Bureau of the Budget transmitting a copy of the report and requesting advice as to the relationship of the proposed legislation to the program of the President also had been sent to the members of the Board.

With regard to the draft of letter to the Bureau of the Budget, there was a discussion of the reasons for the present procedure for submission of views on proposed legislation to that Bureau, and consideration was given to whether, in replying to a request from a Congressional committee concerning a legislative proposal such as the one in question, any purpose was served by submitting a draft of the report to the Budget Bureau. It was pointed out that, as opposed to the usual case where the Bureau serves in a coordinating capacity with regard to proposals affecting a number of Government agencies, the Board of Governors in this case was responding to a Congressional request for a report on a bill directly affecting the Federal Reserve System. It was the view of the members of the Board that in such circumstances the usual coordinating function was not involved and that in this case the forwarding to the Budget Bureau of a copy of the letter sent to the House Committee on Government Operations would be sufficient.

Consideration then was given to the revised draft of letter to Chairman Dawson and several suggestions were made for further changes.

At the conclusion of the discussion unanimous approval was given to a letter for the signature of Vice Chairman Balderston to Chairman Dawson in the following

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form, with the understanding that copies would be sent to the Chairmen of the Senate and House Banking and Currency Committees and to the Federal Reserve Banks:

This is in response to your letter of February 1, 1955, requesting a report on H. R. 2643, which would direct the Comptroller General to make an audit of the Board of Governors of the Federal Reserve System, the Federal Reserve Banks, and the Federal Open Market Committee for the period December 23, 1913 to December 31, 1954.

The proposed legislation, except for the period covered, is similar to H. R. 7602, introduced in the 83rd Congress, upon which the Board has previously expressed its views in a letter to your Committee dated March 30, 1954 and in a hearing before your Committee on June 2, 1954.

As the Board stated in that letter, and as was emphasized in Chairman Martin's statement to the Committee, the Board of Governors recognizes the importance of budgetary and accounting procedures that will make for effective and efficient operations throughout the Federal Reserve System. The Board, however, believes that fully effective procedures are being followed.

As an agent of Congress, and as directed in the Federal Reserve Act, the Board of Governors conducts annual examinations of the Federal Reserve Banks and branches, including the Federal Open Market Account. A staff of examiners versed in the operations of the Federal Reserve Banks is maintained exclusively for this work. In order to be assured that its examination procedures meet the highest standards of commercial auditing procedures and techniques, the Board adopted the policy of retaining a firm of public accountants to accompany the examiners on one Federal Reserve Bank examination each year for the purpose of reviewing and observing the adequacy of the procedures and practices. The firm of Arthur Andersen & Co., certified public accountants, has been retained for this purpose during the past two years.

With respect to the Board's own accounts, the Board for many years had its accounts examined by representatives of the auditing departments of the seven nearest Federal Reserve Banks, on a rotating basis. However, since 1952 the Board has retained the firm of Arthur Andersen & Co. to audit its books. The firm's certificate of audit for 1952 was included in the Board's Annual Report for that year. The certificate for 1953 was not available in time for publication in the

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Annual Report for that year; however, as soon as copies of the auditors' complete report were available they were forwarded promptly to the Banking and Currency Committees of the Senate and of the House of Representatives, respectively. The firm has submitted a certificate of audit of the Board's books and accounts for 1954, which is included in the Board's Annual Report for that year. Copies of the complete report have been forwarded to the Banking and Currency Committees.

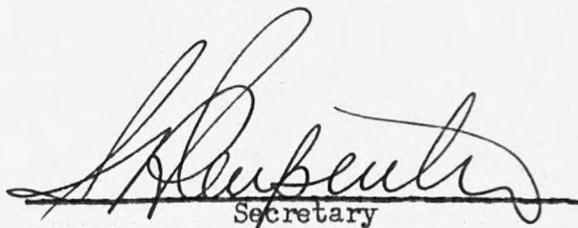
No restrictions or limitations were placed upon the firm of Arthur Andersen & Co., either as to its audit of the Reserve Board's accounts or to its review of the procedures followed by the Board's examiners at Federal Reserve Banks.

Pursuant to an understanding resulting from the hearings before your Committee last summer, the Board delivered to the Chairman of the House Banking and Currency Committee the reports of examination made by the Board's examiners of the 12 Federal Reserve Banks (including the System open market account) and their 24 branches covering the year 1953 (also, at the request of Congressman Patman, similar reports covering the four years preceding 1953 were delivered to the Chairman of the House Banking and Currency Committee), with the understanding that these documents would be made available on a confidential basis to Members of Congress as well as to the staff of the Committee who desired to see them. The Board, of course, stands ready at all times to furnish to the appropriate Committees of Congress, upon their request, full information concerning the accounts of the Board and the Federal Reserve Banks.

When your Committee or any subcommittee gives active consideration to H. R. 2643, the System would appreciate an opportunity to be heard.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 17, 1955, were approved unanimously.

The meeting then adjourned.

  
Secretary