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

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Sloan, Director, Division of Examinations
Mr. Johnson, Controller, and Director, Division of Personnel Administration
Mr. Cherry, Legislative Counsel

At the request of the Chairman, Mr. Carpenter read drafts of letters to Mr. John D. Hospelhorn, Vice Chairman of the Executive Committee, National Association of Supervisors of State Banks, and Mr. Young, Chairman of the Conference of Presidents of the Federal Reserve Banks, which had been prepared pursuant to the understanding at the meeting on April 14, 1955, resulting from discussion of the suggestion that the schedule of loans and discounts be omitted from the forms supplied to member banks for condition reports in the spring and fall of each year, with the understanding that the schedule would continue to be required in the reports submitted as of June 30 and December 31.

Certain suggestions were made for minor changes in the draft of letter to Mr. Hospelhorn, and the letters were then approved unanimously in the following form, with the understanding that copies would be sent to the Comptroller of the Currency and the Chairman of the Federal Deposit Insurance Corporation:

Letter for the signature of Vice Chairman Balderston to Mr. John D. Hospelhorn, Vice Chairman of the Executive Committee, National Association of Supervisors of State Banks, c/o State Banking Department, Baltimore, Maryland

At the meeting on April 6 at the Board's offices between your Committee and Members of the Board of Governors, the question was informally raised by your Committee whether Schedule A, Loans and Discounts, might not be eliminated from forms supplied to member banks for spring and fall condition reports and be required only as part of mid-year and end-of-year condition reports.

Governor Szymczak and I brought the suggestion to the attention of the Board, which discussed it on April 14. It was, of course, recognized that it is somewhat of a burden for banks to report the loan breakdowns, also that there are inaccuracies in reporting. The Board concluded, however, that the collection of these data on all calls is quite essential to the proper administration of monetary and credit policy. If the information were not obtained in this way, it probably would have to be sought in some other way which would still be a burden to a substantial number of banks.

As you probably know, a condensed but complete condition report, including a six-item breakdown of loans, is obtained weekly from about 400 of the larger member banks in 94 cities--the so-called weekly reporting member banks. About 200 of these banks also submit a supplementary weekly report giving a breakdown of commercial loans by major industrial groups. In addition, data on consumer loans are collected monthly from about 450 of the leading banks in the consumer credit field. On the other hand, the only available source of information with respect to the volume of the various kinds of loans made by country banks--which comprise the great mass of all member banks--is the call condition report. The Board is convinced that it is in the interest of the country banks themselves that adequate information be available with respect to their situation when it is considering monetary policy and actions. It hopes, therefore, that your Association will support the collection of such data in all call reports.

The proposed revised loan schedule and related instructions, which were submitted to your Committee under date of February 2 and which, I understand, were considered at your meeting on April 5 held at the offices of the Federal Deposit Insurance Corporation, are designed to bring about a greater degree of accuracy in the reporting of the data called for in Schedule A. Other steps in the same direction are being taken. The Federal Reserve Bank of New York, for example, has circularized all member banks in its district and pointed out the importance of the loan schedule, and is offering to assist them in setting up a system for coding their loans in a manner consistent with Schedule A. This is being done not only with a view to more accurate reporting, but also to make it much easier for the banks to report the desired breakdowns when requested.

Letter to Mr. Young, Chairman, Conference of Presidents of the Federal Reserve Banks

At an informal meeting at the Board's offices between the Executive Committee of the National Association of Supervisors of State Banks and members of the Board of Governors, the question was raised by representatives of the Association whether Schedule A, Loans and Discounts, might not be eliminated from forms supplied to member banks for spring and fall condition reports and be required only as part of mid-year and end-of-year call reports. As indicated in the enclosed copy of a letter to Mr. John D. Hospelhorn, Vice Chairman of the Executive Committee of the Association, the Board believes that quarterly loan data are quite essential in the proper administration of monetary and credit policy.

In the course of the discussion at the Board meeting, the question was raised of what might be done to make it easier for member banks to report the loan data and to insure more nearly accurate reporting. Mention was made in this connection of actions taken recently by the Federal Reserve Bank of New York to this end, described in the enclosed copy of letter to Mr. Hospelhorn. At the conclusion of this discussion, the Board decided to ask the Presidents' Conference to study the matter and to suggest a program or measures designed to ease the burden and improve the quality of reporting the loan and other data called for in condition reports.

The Board will appreciate it if you will bring the matter to the attention of the Presidents' Conference.

In accordance with the understanding at the meeting on April 15, 1955, Mr. Vest had prepared a draft memorandum concerning the request of the Chairman of the House Committee on Government Operations to the Comptroller General that the latter make an audit of the Board of Governors, the Federal Open Market Committee, and the Federal Reserve Banks and branches for the period January 1, 1953, through December 31, 1954. Copies of the draft memorandum had been sent to the members of the Board prior to this meeting.

Mr. Vest stated that after the memorandum was prepared it was found that during consideration of amendments to the Budget and Accounting Act in 1950, a Conference Committee report submitted by Mr. Dawson, Chairman of the House Committee on Expenditures (now the Committee on Government Operations) stated that the Act was not intended to affect the Federal Deposit Insurance Corporation and that the Corporation's funds never had been under the Budget and Accounting Act for the reason that they were not Government moneys or appropriations, being obtained through assessment upon insured banks. Mr. Vest suggested that by the same reasoning it would seem logical to exclude the Board of Governors and its funds from the Budget and Accounting Act, of which section 53(b) of Title 31 of the

United States Code is a part. In response to a question, he said that while the practical argument might be made that Federal Reserve Bank funds are funds in which the Government has an interest by virtue of the payments made by the Banks to the Treasury as interest on Federal Reserve notes, this, in his opinion, was not a sound legal argument that funds of the Banks are Government funds, particularly since the payments to the Treasury are made voluntarily.

A discussion of the draft memorandum ensued and several suggestions were made for changes therein. The use to be made of the memorandum was then considered and it was the unanimous view that a decision should not be made on that point pending developments at this afternoon's meeting with the Comptroller General. There was also a discussion of what might be said at the meeting this afternoon and it was understood that such comments would be made as appeared appropriate after hearing the Comptroller General.

Messrs. Sherman, Thurston, Leonard, Vest, Sloan, and Cherry then withdrew from the meeting and the following members of the staff of the Division of International Finance entered the room:

Mr. Marget, Director
Mr. Dembitz, Assistant Director
Mr. Furth, Chief, British Commonwealth and Western European Section
Mr. Hersey, Chief, Special Studies Section
Mr. Heuser, Chief, Central European Section
Mr. Tamagna, Chief, Financial Operations and Policy Section
Mr. Whittington, Chief, Far Eastern Section

Mr. Katz, Economist
Mr. Olson, Economist
Mr. Solomon, Economist

The representatives of the Division of International Finance reviewed foreign financial developments, stressing the bearing of such developments on prospects for formalization of the convertibility of foreign currencies.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 15, 1955, were approved unanimously.

The meeting then recessed and reconvened in the Board Room at 2:30 p.m., at which time all of the members of the Board, except Governor Vardaman, were present, along with Messrs. Carpenter, Leonard, and Vest of the Board's staff.

Mr. Joseph Campbell, Comptroller General, and Mr. Robert F. Keller, Assistant to the Comptroller General, were also present.

Mr. Keller stated that the office of the Comptroller General was given the duty of carrying out the requests of appropriate committees of Congress but that the office was aware of the Board's position in the matter of audits of the Board and the Federal Reserve Banks and wanted to discuss with the Board the request contained in Congressman Dawson's letter of April 13, 1955. He added that the office had no feeling one way or another as to whether the audits should be made.

Chairman Martin stated that the request strikes at the heart of the place of the Board and the Federal Reserve Banks as the central banking organization, that the Board felt that the proper way to handle the matter was for the Congress to determine the course that should be followed as a matter of policy, and that there was a very real question as to how the Board should proceed.

At the request of the Chairman, Mr. Vest outlined the background of the problem and the considerations involved, as discussed at the meeting of the Board this morning. In connection with the question of authority of the Committee to request the audit, Mr. Keller stated that the Comptroller's office had always considered the Committee on Government Operations to be one which the office was required to serve on the basis of the fact that the Committee did have jurisdiction over questions relating to Government operations and expenditures. He made the further statement that no requests had previously come from the Committee in the form of Chairman Dawson's letter of April 13, but that other requests had been received which the Comptroller had carried out. He did not know whether the present request represented the feeling of the members of the Committee on Government Operations. In connection with a discussion of the question whether the Committee would have jurisdiction over other than Government or appropriated funds, Mr. Vest referred to the letter addressed by the Acting Comptroller General to the Chairman of the Subcommittee on General Credit Control and Debt Management under date of April 28, 1952, which stated in part:

> In view of the broad authority conferred upon the Board to determine and prescribe the manner of incurring

> obligations and to pay its expenses and the fact that funds used to defray the expenses of the Board are not Government funds or appropriated moneys, together with the rule, as set out in 12 U. S. C 484 that no bank is subject to any visitorial powers other than authorized by law, or vested in the courts, or as shall be exercised or directed by the Congress or by either House thereof or by any committee of Congress or of either House duly authorized, it is my opinion that the General Accounting Office would be unable to undertake an audit of the activities of the Board and the Federal Reserve banks without specific authority of the Congress.

Mr. Vest also referred to the statement in the Conference Committee Report in 1950 which stated that the funds of the FDIC were not under the Budget and Accounting Act for the reason that they were not Government moneys or appropriations. He added that in view of the 1952 position of the Comptroller General and the 1950 position of the Conference Committee it seemed to be agreed that the Budget and Accounting Act generally did not affect the Federal Reserve, and he indicated that section 53(b) of Title 31 of the United States Code did not have a broader scope or application than other sections of the Accounting Act.

Mr. Keller responded that it was a question of the jurisdiction of the Committee and that the office of the Comptroller General felt that the problem was something that the Board would have to work out with the Committee rather than with the Comptroller General, that the office of the Comptroller General had an order to make the audit and felt that it did not have much of an alternative, but that if the Board questioned the jurisdiction of the Committee, the Comptroller General would not take a position that it was right or wrong. He was not inclined to go into the question of the jurisdiction of the Comptroller General because he felt the question was essentially one of the jurisdiction of the Committee.

Mr. Vest commented that the proposed audits would appear to involve not only the jurisdiction of the Committee but the scope of the jurisdiction of the Comptroller as well, and he raised a question as to whether the Comptroller General would have the authority to go into a private concern. Mr. Keller's comment was that that question had come up and that the Comptroller's office had gone into such concerns as agent of the Committee in a few cases, but that it did not have subpoena powers. He added that if the requests of the Congress got too far afield they would question them, but that so far that had not happened.

Governor Robertson inquired how the Comptroller's office would go about carrying out Chairman Dawson's request. Mr. Campbell responded that he had not given thought to that and Mr. Keller added that that was a matter on which a decision could not be made overnight. Governor Robertson inquired whether an audit could be regarded as an investigation under the phraseology of section 53(b), and Mr. Campbell stated that it was his view that if Chairman Dawson had meant an investigation he would have used that term. Governor Robertson questioned whether an audit would fall within the definition of an investigation within the meaning of the statute.

Governor Szymczak referred to the bill now pending before the Committee on Government Operations which would provide for an audit of the accounts of the Board and the Reserve Banks, and he inquired why a bill would be necessary if the Committee would have authority to order an audit.

Chairman Martin reviewed the developments in connection with the hearing on a similar bill before the Committee on Government Operations last year and the delivery of the reports of examination of the Federal Reserve Banks and audits of the Board's accounts to the House Banking and Currency Committee.

Governor Mills raised the question of the possibility of the Board being challenged by the House Banking and Currency Committee if it should permit the audits, to which Mr. Keller responded that he did not believe the Comptroller General could question the jurisdiction of the Committee on Government Operations, that he would have to assume that the Chairman was speaking for the Committee, that the Board of Governors would have to make up its mind what its position would be, and that if it decided that it wanted to question the audits the Comptroller General would have to report that fact to the Committee.

Governor Szymczak pointed out that the Board would have to take the matter up with the boards of directors of the Federal Reserve Banks, and Mr. Keller commented again that the Comptroller's office did not have any position one way or the other as to whether the audits should be made but that it had the request of the Committee.

Governor Balderston raised the question whether, if the audit were made, it would be a complete audit or whether the Comptroller would review reports of examinations made by the Board and audits made by the Banks. Mr. Keller stated that his office would like to have complete access to what had gone on before, that while they might decide to rely very heavily on audits and to avoid duplication they would not want to make any commitment in that regard. One of the first things, he said, would be to look at the internal audits and, if they were satisfactory, they might not go any further.

Mr. Campbell stated that the question was not one of the mechanics or the scope of an audit but that a matter of principle was involved, that his staff was able and well directed, and that he was able to undertake the audit. He also said that the next step would be to transmit formally a copy of the letter from Chairman Dawson to the Board and Chairman Martin suggested that the transmittal letter be in such form that the Board would have an opportunity to comment. The reason for this suggestion was that there was a real question of doubt as to whether the proposed audits should be made, and that the Board did not want at this stage to be in a rigid position with respect to the request but wanted to explore fully what the problem was. He also said that the Board did not want to hide anything because it did not have anything to hide, nor would it want to be in a position of rejecting a proper investigation into the System's activities.

Mr. Keller expressed the view that regardless of the form of letter of transmittal the Board would be free to make whatever reply it desired. Chairman Martin concurred but said that the Board would like to have the letter come over in such form that there would be no closed decision but rather the possibility of further consideration. It was his view that if the question of jurisdiction is not clear there is reason to put the pending bill before Congress for consideration by the Congress as a whole.

In a further discussion of the relationship of the Federal Reserve Banks and the boards of directors of the Banks to this matter, it was stated by representatives of the Board that, even if the Board should accept the request, some of the Federal Reserve Banks might feel compelled to take a contrary position.

Governor Balderston stated that the consideration that overrides the desire of the Board to be cooperative on all requests that might come from members of committees of the Congress is the fact that the Congress as a whole has established the System in a special category as the central banking agency of the Government. It was expected, he said, that the System would not be swayed by pressures from any direction and if the Board and the Federal Reserve Banks should permit the audit in spite of the questions that have been raised, such action might be regarded as a breach of the System's duty as trustee.

Mr. Keller inquired how the Board would approach the problem if the Committee should hire a staff directly and undertake the audit and Governor Szymczak responded that the Board probably would approach the matter in the same way.

There was further discussion of the desirability of the Comptroller General in his letter of transmittal asking for the Board's comments and during that discussion Mr. Campbell stated that he had learned shortly before he received the letter from Chairman Dawson that the request was going to be made, that he asked for an appointment with Mr. Dawson to discuss the matter, but that the letter was sent and received before he was able to see Mr. Dawson. He added that he had the impression during his conversation with Mr. Dawson that the latter felt very strongly that the audits should be made.

In a discussion of what the situation would be if an audit were made and there were repeated requests, Mr. Keller stated that if the audit were once made the reason for further audits might disappear and in any event there would then be a basis for negotiation as to whether further audits should be made. Mr. Campbell said that apparently what was desired was a statement by the auditors whether a "job has been done and whether it is all right".

Governor Shepardson inquired whether the principal reason for the audit was as stated in the letter from Chairman Dawson, i.e., to enable Congress to evaluate and appraise the operation of the System and to form judgments upon which might be premised possible legislative action. The representatives of the General Accounting Office said they had no reason to question that as the principal reason.

Governor Robertson inquired what the situation would be if no bill were pending and Mr. Keller said that the pending bill would make no difference and that it was not necessary to have specific legislation pending to support a request for an investigation.

Governor Robertson asked whether repeated requests of this kind would not be a means of expanding the jurisdiction of the Comptroller General without the benefit of law, to which Mr. Campbell replied that his office would not be able to do anything without a request of an appropriate committee. In response to a further inquiry from Governor Robertson as to what the situation would be in the event of a request from a committee which clearly did not have responsibility for revenue, appropriations, or expenditures, Mr. Keller stated that the office had had some such requests which it had refused.

Chairman Martin repeated his suggestion that it would be very helpful if the transmittal letter from the Comptroller General could be in the form of a request for the Board's views rather than in a form of saying that the Comptroller's office was ready to proceed. This, he said, would give the Board an opportunity to comment, which comments could be sent to the Committee on Government Operations. There was some further discussion of this point and Mr. Keller said that it certainly would be considered. Chairman Martin commented that the past history of the matter was such that the Comptroller would have every justification for following that course. Mr. Campbell said that they would "try their hand" on such a letter transmitting the request to the Board.

The meeting then adjourned.

S R Carpenter
Secretary