

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, June 16, 1955. The Board met in the Board Room of the Federal Reserve Bank of Richmond at 2:00 p.m.

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

Mr. Carpenter, 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

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

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

In accordance with the request contained in your letter of June 8, 1955, the Board approves the designation of Robert E. Spaulding as a special assistant examiner for the Federal Reserve Bank of New York.

Approved unanimously.

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

This is in further reference to your letter of April 27, 1955, and its enclosures, concerning whether Mr. Robert Winthrop, who is a partner in the firm of

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Robert Winthrop & Co., New York City, may continue lawfully to serve at the same time as a director of The First National City Bank of New York, New York City, and as a director of City Bank Farmers Trust Company, New York City, in view of the prohibition in section 32 of the Banking Act of 1933, as amended.

This matter was submitted to the Board as a result of your Bank's latest periodic review of the status of the firm under the statute. If Robert Winthrop & Co. is "primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities" within the meaning of section 32, then the statute prohibits continuance of Mr. Winthrop's interlocking relationships.

From the information presented, it appears that while the main business of the firm is brokerage, some of the firm's business is of the kind described in section 32 and arises from its participations in underwriting syndicates for municipal and State bonds, including turnpike and toll road bonds. With respect to its business of the latter kind, the firm indicates that it does not maintain a separate underwriting or distributing department; that it does not hold itself out as being in the underwriting or distributing business; and that it does not emphasize such business in its advertising, although its name does appear in syndicate offering advertisements along with the names of other members of the underwriting syndicate.

However, the information submitted by the firm concerning its business of the kind described in section 32 shows, for the years 1950 to 1954, inclusive, that the firm's dollar volume of such business for each of those years was \$3,473,000, \$3,398,000, \$3,605,000, \$3,523,000 and \$4,400,000, respectively; that the ratio of such dollar volume to the dollar volume of the firm's total business for each of the years was 3.8 per cent, 2.7 per cent, 2.8 per cent, 2.6 per cent and 4.3 per cent, respectively; that the gross income of the firm from such business for each year was \$14,426, \$21,983, \$25,227, \$38,277 and \$87,020, respectively; that the ratio of such income to the firm's total gross income was 3.2 per cent, 4.9 per cent, 6.6 per cent, 9.9 per cent and 14.9 per cent, respectively; and that the number of separate issues with respect to which the firm participated as underwriter or distributor for each of the years was 14, 19, 16, 22 and 21, respectively.

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On the basis of the information submitted, the Board is of the view that Robert Winthrop & Co. should be regarded as "primarily engaged" in business of the kind described in section 32. As you know, the meaning of the words "primarily engaged" was before the Supreme Court of the United States in Board of Governors v. Agnew and Fayerweather, 329 U.S. 441 (1947). In that case the Court decided that "the line between substantial and unsubstantial seems to us to be the one indicated by the words 'primarily engaged.'"

The Board does not consider that the factual information submitted gives any clear indication that the underwriting or distributing business of the firm for 1955 or subsequent years will necessarily be substantially less than for 1954, and there would seem to be no justification for giving such business in 1954 a reduced significance merely because of a higher underwriting profit. Likewise, the Board does not believe that material significance attaches to the fact that portions of particular participations may be used to fill customers' orders received prior to the availability of particular issues distributed by the firm.

Accordingly, unless there is further information bearing upon the applicability of the statute which the parties concerned may wish to bring to the attention of your Bank and the Board, it is assumed that Mr. Winthrop will take steps in due course to bring his services into conformity with the statute.

Approved unanimously.

Letter to the Board of Directors, The Croghan Bank and Savings Company, Fremont, Ohio, approving, subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H, the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Cleveland.

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

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

There have been forwarded to you today under separate cover the indicated number of copies of the following forms,

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a copy of each of which is attached, for use of State member banks and their affiliates in submitting reports as of the next call date:

Number of
copies

- Form F. R. 105 (Call No. 136), Report of condition of State member banks.
- Form F. R. 105e (Revised May 1948), Publisher's copy of report of condition of State member banks.
- Form F. R. 105e-1 (Revised May 1948), Publisher's copy of report of condition of State member banks.
- Form F. R. 105e-2 (Revised February 1955), Publisher's copy supplement.
- Form F. R. 220 (Revised March 1952), Report of affiliate or holding company affiliate.
- Form F. R. 220a (Revised March 1952), Publisher's copy of report of affiliate or holding company affiliate.

All of the forms are the same as those used on April 11, 1955.

Inquiries have been received with respect to the appropriate treatment in banks' books and reports of FHA insured and VA insured or guaranteed real estate loans purchased at a discount. Such loans may be carried on the banks' books and shown in the reports of condition either (1) at cost price, or (2) at the face amount, with an appropriate offsetting account such as "Uncollected discount on real estate loans" to be included in "Other liabilities", item 23, and in item 5 of Schedule I. The discount may be accumulated over the remaining life of the loans in equal instalments and, if accumulated, should be included in item 1(b), "Interest and discount on loans", of reports of earnings and dividends. If the discount is not accumulated over the life of the loans, any profit realized when the loans are sold or paid off should be reported in item 4(c), "All other (recoveries, transfers from valuation reserves, and profits)". The substance of this paragraph should also be included in your letter transmitting mid-year reports of earnings and dividends to State member banks.

Inquiries have also been received concerning the classification of insured soil and water conservation loans, insured by the Farmers Home Administration pursuant to the authority

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contained in the Act of August 28, 1937, as amended by Public Law 597 of the 83rd Congress. These loans should be shown against item 6(a) in Schedule A in the report of condition as real estate loans secured by farm land.

It is understood that the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation are taking the same positions on these two questions.

Approved unanimously.

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

During the Conference of Representatives of Bank Examinations Departments of the Federal Reserve Banks held in Washington March 7-9, 1955, there was a discussion of the apparently developing practice of some member banks of lending United States Government securities to brokers on the security of customers' stock exchange collateral. Although the apparent purpose of this practice, from the brokers' standpoint, was to borrow on Government securities at a total rate that was less than the current rate on brokers' loans, it raised questions regarding reporting, both in condition and examination reports, and the applicability of certain sections of the Federal Reserve Act and the Board's Regulations T and U.

Although it is understood that the practice is not as prevalent as it was several months ago, no definite information is actually available. Various means of obtaining a satisfactory measure of this practice, or of ascertaining whether it still continues, including call reports, examinations reports, and weekly condition reports, have been under discussion by members of the Board's staff and the Comptroller of the Currency's office. It has been concluded that it would be sufficient, for the present purpose at least, to obtain statistics on the extent of the practice at the approximately 390 weekly reporting banks in 94 cities. Accordingly, it will be appreciated if you will obtain the following information from each weekly reporting bank as of the second Wednesday following the date of this letter:

United States Government securities (book value)
loaned to brokers, secured by stock exchange
collateral.

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The request to the weekly reporting banks should not be made before the Thursday following the Wednesday report date.

Please furnish the Board with two copies of a transcript showing the data with respect to each bank reporting any securities loaned for the purpose indicated.

Approved unanimously, together with a letter to Mr. Sproul, President, Federal Reserve Bank of New York, reading as follows, and a similar letter to Mr. Young, President, Federal Reserve Bank of Chicago:

This letter supplements the letter sent today to the Presidents of all Federal Reserve Banks, requesting that they ascertain the amounts of United States Government securities loaned to brokers on the security of customers' stock exchange collateral.

In the discussion of this subject, it was suggested that it would be desirable to ascertain how member banks report loans (of money) to brokers on Government securities borrowed by the brokers from other banks. It will be appreciated if you will ascertain from each weekly reporting member bank in New York City, as of the second Wednesday following the date of this letter, (1) the amount of loans to brokers secured by Government obligations which, it had reason to believe, the brokers had borrowed from other banks on the pledge of customers' stock exchange collateral, and (2) in what item of the weekly condition report such loans on borrowed Government securities were reported.

Please furnish the Board with two copies of a transcript of the reported information.

A similar letter is being sent to the Federal Reserve Bank of Chicago. As you know, reporting banks in New York City and Chicago are the only banks now required to segregate loans to brokers and dealers in securities into those (a) for the purpose of purchasing or carrying Government securities and (b) for the purpose of purchasing or carrying other securities.

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

Reference is made to a letter from your office dated March 9, 1955, enclosing photostatic copies of an application

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to organize a national bank at Elsmere, Delaware, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application made by an examiner for the Federal Reserve Bank of Philadelphia is not very favorable with respect to the factors usually considered in connection with such proposals. It appears that the proponents are agreeable to a suggested increase in the initial capital structure of the bank from \$130,000 to \$140,000. While this capital structure may be adequate for the volume of business anticipated it could not be clearly established that the necessary capital could be raised. The future earnings prospects of the bank are somewhat questionable in view of the limited volume of business available and the proposed officers and directors have no experience in banking operation. It is understood that an experienced executive officer would be employed but steps have not been taken to contact any particular individual or to fix a salary that would attract a competent person. Existing banking facilities located slightly over one mile from the site of the proposed bank are reported to meet satisfactorily the banking needs of the area and the strong competition of these offices would make it extremely difficult for a newly organized bank to operate profitably. In view of these unfavorable factors the Board of Governors does not feel justified in recommending approval of the application.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office, if you so desire.

Approved unanimously.

Letter to Mr. Javier Marquez, Director, Center for Latin American Monetary Studies, Mexico, D. F., reading as follows:

This will acknowledge your letter of May 30 regarding a proposed visit to the Board's offices by trainees from the Center for Latin American Monetary Studies during the week beginning September 12.

The Board will be glad to receive the trainees during that week, and a program will be arranged similar to those that were provided in 1953 and 1954. In accordance with your suggestion, one day during the week will be left open in order to satisfy the specialized interests of some of the trainees and to facilitate their visiting institutions

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not covered in the regular program. Your further advice will be appreciated regarding the names and affiliations of the persons in the group and their wishes as to hotel accommodations.

Approved unanimously, together with recommendations contained in an attached memorandum from Mr. Kenyon dated June 8, 1955: (1) that the Board authorize a luncheon for the group in the staff dining room on one of the days during the week of September 12, and (2) that the Board authorize arrangements for simultaneous translation, if such arrangements should prove to be necessary.

Reference was made to a memorandum dated June 2, 1955, from the Board's Editorial Committee which had been circulated among the members of the Board and which read as follows:

This memorandum reports on progress and plans to modernize the Federal Reserve Bulletin and improve its typography--without detracting from its essential dignity. A considerable lead time is required for such planning work, and it would be January 1956 at the earliest before a new format could be put into effect.

The principal changes proposed--shown in the attached exhibit--are:

1. A cover in color with new display type and drawings of the Federal Reserve building and its decorative details. The color would be changed each quarter and the drawing each month of the year.
2. Use throughout the text and tabular material of the Times Roman type (so called because it was designed for restyling the London Times) and of Perpetua for display. These type faces were used in The Federal Reserve System--Purposes and Functions.
3. New typographic layout to facilitate reading of both text and tables and to make them more attractive. Some retrospect material would be deleted from some tables.

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4. Introduction of color in main body, chiefly on title pages, content pages, text tables, and charts.
5. Expansion of the directory of System senior officers to include directors of the Federal Reserve Banks and branches. This would provide System recognition of the public service of these individuals.

Indication of Board reaction to these plans seems desirable before investigating their feasibility from the point of view of cost and making a final recommendation. The art work required for the covers of 12 issues and for the title page is ambitious but would be a special job as well as a special cost for the first year only, as the plates would continue to be used in subsequent issues. There would also be some regular cost of printing the Bulletin, resulting largely from the use of color.

The proposals for Bulletin changes have been worked out by Mr. Robert W. Galvin and Miss Burr, in consultation with Mr. Warren Chappell, who suggested the typography and binding for Purposes and Functions, and with Miss Butler, Mr. Molony, and the Editorial Committee. Mr. Galvin was retained for a major part of the art work and for consultations on the typography and binding of Purposes and Functions, and it is hoped that he and Mr. Charles Elliott, the other artist for that publication, can be retained in similar work if a new Bulletin format is approved.

At the request of the Board, Mr. Thurston and Mr. Young commented on the matters referred to in the memorandum. In response to a question by Governor Mills, Mr. Young said that an increase in the subscription price of the Bulletin would be one way of meeting the expense involved in the suggested changes but that elements of cost had not been explored in detail, it having been the feeling of the Editorial Committee that the restyling of the Bulletin should be taken up with the Board before questions of cost were presented.

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Governor Robertson stated that although he favored the proposed changes in typography, he questioned whether the introduction of color into the cover and the charts was necessary or appropriate for a Board publication.

Governor Balderston referred to revisions made recently in the format of various educational and institutional publications and the resultant improvement in the readability of such publications. He expressed himself as favoring the changes suggested for the Federal Reserve Bulletin except the proposed quarterly changes in the color of the cover.

Governor Mills indicated that his views were similar to those expressed by Governor Balderston except that he felt it might not be necessary to change the drawings on the cover from month to month.

Governor Shepardson supported the plans except for the quarterly changes in the color of the cover. He was inclined to favor the idea of varying the drawings appearing on the cover.

Chairman Martin expressed himself as sympathetic to the proposals, emphasizing that in his opinion the new typographic layout would facilitate the reading of the text and the tables. He thought that the introduction of color into the tables also would be of assistance.

At the conclusion of the discussion, it was understood that the Editorial Committee would explore the cost of the project and make a final recommendation to the Board on the basis of the views expressed at this meeting.

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At this point Mr. Bethea, Director, Division of Administrative Services, joined the meeting.

The following draft of letter to Mr. Young, Chairman of the Conference of Presidents of the Federal Reserve Banks, had been prepared pursuant to action taken by the Board on March 16, 1955, and had been circulated to the members of the Board prior to this meeting:

This refers to the "Statement of Objectives for the Research Activities of the Federal Reserve Banks" which was discussed at the joint meeting of the Board of Governors and the Presidents of the Federal Reserve Banks on March 3, 1955. In a letter dated March 10, 1955, you were advised that the Board would like an opportunity to study the statement.

The Board shares the view indicated in the Coleman Committee report that there should be a general directive expressing the nature and objectives of Federal Reserve research activities. The System's statutory responsibility is fundamentally in the monetary and credit fields. Accordingly, System research projects need constantly to be appraised from the standpoint of their bearing on these fields so that inadvisable extensions of Federal Reserve Bank research activities may be avoided.

It is believed that the statement of research objectives adopted by the Presidents at their last Conference should provide a helpful guide to the officers and directors of the Reserve Banks in planning and evaluating research activities and formulating budgets therefor, and to the Board of Governors in its consideration of these matters.

The Board wishes to thank everyone at the Federal Reserve Banks who participated in this project for the work that has been done and the results accomplished.

Approved unanimously.

In accordance with the understanding at the meeting on June 10, 1955, letters had been drafted (1) to Mr. Alexander, Chairman of the Federal Reserve Bank of St. Louis, relating to certain expenditures incurred

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in connection with the 1953 and 1954 joint meetings of the directors of the Bank and its branches, and (2) to Mr. Young, Chairman of the Conference of Presidents of the Federal Reserve Banks, requesting that a discussion of this type of expenditure be had at the forthcoming meeting of the Presidents' Conference with the Board with a view to obtaining a more specific understanding.

The drafts were distributed and reviewed and certain changes in them were suggested, including changes which would avoid any inference that it was the Board's intent to have the expenses incurred at St. Louis referred to specifically in the discussion with the Presidents' Conference.

In view of the comments made, Mr. Thurston was requested to prepare revised drafts of the two letters for the further consideration of the Board.

There had been sent to the members of the Board copies of a memorandum from Governor Mills dated June 13, 1955, suggesting approval by the Board, contingent upon approval by the Presidents' Conference, of a recommendation made by the Executive Committee of the Retirement System of the Federal Reserve Banks that Industrial Relations Counselors Service, Inc. be retained for a fee of approximately \$25,000 to survey the Retirement System. Governor Mills' memorandum also contained the following paragraph:

It will be observed that the objectives of the survey point to a comparison of the adequacy of the Retirement System with private pension systems and not to a comparison with the Civil Service Retirement System. Accordingly,

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approval by the Board of the recommendation might indicate that it is given without prejudice to subsequent judgments on the ultimate recommendations to be forthcoming from the survey and as to their bearing on the place in Government both of the Federal Reserve Banks and the Board of Governors.

Following comments by Governor Mills, unanimous approval was given to a letter in the following form to Mr. Bryan, Chairman of the Executive Committee, Retirement System of the Federal Reserve Banks:

This letter is in confirmation of Governor Mills' telephone conversation with you on June 16 in which he stated that the Board had considered the recommendations of the Executive Committee of the Retirement System of the Federal Reserve Banks and, subject to approval by the Conference of Presidents at its meeting next week, approved the retention of Industrial Relations Counselors, Inc., at a fee of approximately \$25,000, exclusive of any special traveling and subsistence expenses, to make a comprehensive survey of the Retirement System of the Federal Reserve Banks and to present a report and recommendations on the basis of which it will be possible to decide the extent to which changes in benefits appear to be necessary or desirable. The study would commence on July 1 and be completed on or before December 1, 1955.

When recommendations are presented, the Board will want to consider them in the light of other Federal retirement programs and the System's relationship thereto. Inasmuch as various aspects of the problem of retirement benefits are now actively before the Congress, by the time the report of Industrial Relations Counselors, Inc., is received there should be a better picture of the Federal Government's attitude toward retirement systems, both within the Civil Service and otherwise. This point is being mentioned at this time so that everyone will have in mind the different factors that will need to be reviewed when the recommendations are considered.

