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 Tuesday, October 4, 1955, at 2:10 p.m.

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

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 and commenting on 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:

1. Member bank reserve deficiencies. The Conference considered the questions raised in the March 30, 1955, memorandum of the Federal Reserve Bank of New York concerning member bank misuse of the reserve averaging and deficiency carry-over arrangements. It was reported that few evidences of abuses were apparent outside New York City and that the various Reserve Banks reviewed such bank practice regularly. Furthermore, it was noted

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that there had been little misuse of such arrangements in New York in recent months. The Presidents were of the view, however, that the principles regarding reserve deficiencies which were outlined in the New York Bank memorandum would prove useful in the administration of individual cases requiring attention.

Chairman Young said that at the meeting of the Presidents' Conference each President commented on the matter on the basis of experience in his own district and there was unanimous agreement that the memorandum would prove helpful if occasions arose for discussion with individual member banks concerning apparent misuse of the reserve averaging and deficiency carry-over arrangements.

In response to an inquiry, President Sproul said that during the period since the memorandum was prepared there had been no occasion in the New York District to make use of the suggested procedure.

2. State member bank membership in business development corporations. The Conference gave its attention to the Board's telegram of September 9, 1955, concerning the advisability of State member bank entrance into membership in business development corporations. The Conference was in general sympathy with the position expressed in the Board's letter of September 16, 1955, to Senator Scott. The Presidents held varying views with respect to the lending commitment to which banks were bound by entrance into membership in the corporations, in terms of both the duration of the commitment and the attendant loss of bank discretion in the extension of its credit. It was recognized, however, that individual bank exposure under this arrangement would be very limited so long as each bank becomes a member of only one development corporation. There was some opinion that the question of membership and resultant loan commitment was appropriately a matter for individual member bank decision. In any event, it was

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unanimously agreed that the System should not prohibit State member bank membership in one business development corporation.

Chairman Young reported that although there was some difference of opinion among the Presidents as to the advisability of member banks of the Federal Reserve System becoming members of business development corporations, there was unanimous agreement that participation by a State member bank in one such corporation should not be prohibited.

Governor Balderston commented that there appeared to be no provision of Federal law which would prevent State member banks from becoming members of business development corporations. He suggested that the question therefore appeared to be one of whether participation should be encouraged or discouraged.

3. Provision of wrapped coin to member banks. The Conference discussed and accepted the September 15, 1955, report of the Subcommittee on Cash, Leased Wire, and Sundry Operations summarizing the considerations previously given to the policy of furnishing wrapped coin, indicating the present formula for establishing wrapped coin charges and the costs recovered and not recovered thereby, and stating the reasons for and against providing wrapped coin service. Attention was also given to several individual Reserve Bank studies undertaken in an effort to assay the effects of wrapping service upon member bank coin demands. After considering the differing Reserve Bank experience with wrapped coin service, the Conference remained divided on the question of whether or not such service was an appropriate Federal Reserve function. At the present time, nine Banks wrap coin, while three do not. Six Presidents were in favor of continuing the service and six preferred that it be discontinued. Of the six Presidents favoring continuance, two expressed their willingness

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to cease coin wrapping if that were to be the general System policy. On the other hand, of the Presidents preferring that the service be terminated, three stated that their Banks would continue to wrap coin if other Reserve Banks were also supplying that service.

At the suggestion of the Board, each President made a statement of his views with respect to the providing of wrapped coin service.

The six Presidents who favored furnishing the service believed that under current conditions the providing of wrapped coin constituted an appropriate function for the Federal Reserve Banks. They stated that the service was much desired and greatly appreciated by member banks, that it was especially valuable to smaller institutions which are not in a position to maintain their own wrapping facilities, and that its discontinuance would have severe repercussions from a bank relations standpoint, particularly in districts where the service has been provided over a long period. It was reported that recent studies at individual Reserve Banks tended to show that the furnishing of wrapped coin did not result in appreciably higher shipping costs and that shipments of coin to and from individual member banks did not increase substantially. Among these Presidents there was, however, some difference of opinion as to the extent to which wrapped coin should be furnished. While the view was expressed that the question of furnishing wrapped coin was one which might well be left to the judgment of the individual Reserve Banks on the basis of experience within the respective districts, there was some opinion to the effect that a settlement of the policy question would be helpful in order that

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fundamental operating decisions might be made. It appeared that there would be no objection to a revision of the present formula to establish a uniform basis for determining the cost of wrapped coin services. Two of the Presidents who favored continuing the service nevertheless stated that they would be willing to conform to a general System policy to cease coin wrapping.

The group of Presidents looking with disfavor on the wrapped coin service felt that in principle there was a serious question as to whether this was an appropriate central bank function. It also appeared to them that an element of economic waste was inherent in the function. In referring to the persistent demands for extension of the service once it had been initiated, they pointed out that arbitrary limitations left the Banks vulnerable to charges of discrimination and necessitated difficult administrative decisions. The Presidents in this group whose Banks now supply wrapped coin indicated, in two cases rather strongly, that they would welcome a System policy against providing this service. Two of the three Presidents whose Banks do not engage in coin wrapping reported little pressure to institute the service, but the third stated that demands were being generated within his district to the extent that his Bank perhaps would be forced to begin supplying wrapped coin when better physical facilities became available upon the completion of current branch building programs.

Governor Balderston stated that the Board appreciated having the views of the Presidents and would give further study to the matter.

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4. Study of variations in unit costs of handling postal money orders. The Presidents reviewed and accepted the September 1955 special group report to the Subcommittee on Collections concerning variations among Reserve Banks in unit costs of handling postal money orders. The Conference requested that each Reserve Bank study the report with a view to correcting substandard conditions and increasing efficiency of operations wherever practicable. The Conference further asked each Reserve Bank to inform the Chairman of the Committee on Collections and Accounting of all changes in operations and procedures instituted as a result of such study and, in addition, to prepare an explanation of any remaining differences in unit costs which cannot be resolved for submission no later than April 1, 1956.

Chairman Young said that the report already was receiving Reserve Bank attention and that in the opinion of the Presidents improved operating efficiency would result.

5. Imposition of $5,000 minimum on CPD transfers by leased wire. The Presidents gave their attention to the recommendation of the Subcommittee on Fiscal Agency Operations at its September 13-14, 1955, meeting that a $5,000 minimum be imposed upon the face amount of securities which might be transferred over the leased wire facilities of the System. In a May 20, 1955, communication to the Chairman of the Committee on Fiscal Agency Operations, the Fiscal Assistant Secretary of the Treasury had indicated that such a minimum would result in substantial savings in leased wire costs and had requested comment as to the possible effects of such an action upon the investing public. The Conference did not envision any substantial adverse effects from the establishment of such a minimum and accordingly concurred in the Subcommittee recommendation.

Following comments by President Leach, Governor Balderston said that the Board interposed no objection to the proposal.

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6. Studies of the banking structure. The Conference considered the September 28, 1955, report of the Special Committee on Studies of the Banking Structure concerning the issues which the proposed studies of the banking structure might encompass and the avenues by which a program of such studies might proceed. The report outlined relevant quantitative and qualitative information to be analyzed regarding bank mergers, consolidations, expansion of branch systems, and developments in the bank holding company field. The report further suggested that the analyses be carried forward by existing Conference subcommittees and members of the Board's staff and integrated by a coordinating committee of Board and Bank representatives. Over-all direction would be supplied by the Special Committee together with a member of the Board of Governors. The Conference approved the report of the Special Committee and directed it to proceed with the development of arrangements for the studies.

President Williams, speaking as Chairman of the Special Committee, made a statement in which he referred to the large amount of scattered information which needed to be assembled, brought up to date, and analyzed. After commenting on the purposes for which the data would be analyzed, he said that at some point there would also have to be a decision on keeping the data current.

Chairman Young called attention to the arrangements suggested for carrying out the study, including the proposal that over-all direction be supplied by the Special Committee and a member of the Board of Governors, and Governor Balderston commented that the Board would be glad to take the matter under consideration.

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7. Additional items of information arising out of current Conference meeting. In addition to the above items on which action was taken, the following matters of possible interest to the Board were given attention by the Conference. They are reported as a matter of information in this agenda:

a. It was reported that the June 15, 1954, report of the Joint Committee on Check Collection System had been accepted by the American Bankers Association at its meeting in September, under the condition that the Association should handle the promotion of the recommended changes in check collection procedures. The Association of Reserve City Bankers, however, deferred action on the report pending further study.

President Erickson said he understood that the President of the American Bankers Association sent a letter to Chairman Martin recently advising of acceptance of the report by that Association. He assumed that any reservations which the Association might have were set forth in that letter. The Presidents, he said, considered it advisable that the American Bankers Association handle the promotion of the recommended procedural changes. He anticipated that the Association of Reserve City Bankers would give further consideration to the report at its meeting next April and would endeavor to resolve the differences of opinion existing within that organization.

b. The Conference reviewed the September 16, 1955, report of the Subcommittee of Counsel on Emergency Operations dealing with legal aspects of the emergency planning program of the Federal Reserve Banks. Each Bank was asked to forward its comments on that report to the Special Committee on Emergency Operations by November 1, 1955.

There was no discussion with respect to this topic.

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c. The Presidents discussed with members of the Ad Hoc Subcommittee on Bank and Public Relations the possible organization and content of studies of Federal Reserve Bank relations with Congress. Having obtained the counsel of the subcommittee on these matters, the Conference discharged the subcommittee from further assignment.

President Williams recalled that in view of an incident which arose some time ago the Presidents thought that it might be desirable to explore the relationships of the Reserve Banks to the Congress and appointed an ad hoc subcommittee to consider studies of this subject. He said that the subcommittee had now advised the Presidents of its opinion that the only appropriate method of exploring the problem would be on a System basis. However, the subcommittee also felt that such an approach might give rise to difficult questions. As a result, the Presidents decided against proceeding with the study and discharged the subcommittee from further assignment.

This concluded the discussion of the topics submitted by the Presidents' Conference.

President Young reported that representatives of the Treasury Department met with the Presidents' Conference to discuss the forthcoming issue of Federal Home Loan Bank consolidated notes. He said that the information furnished would enable the Reserve Banks to answer questions about the securities and that the only request made of the Presidents concerned the Reserve Bank mailing lists used for Government security issues.

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Governor Robertson commented on a letter being sent to the Presidents of all Federal Reserve Banks under today's date concerning intermediate-term credit for agricultural purposes. He said that, as on other occasions in the past, statements had been made to the effect that bankers were reluctant to extend credit on such a basis due to examiners' criticism and the Board therefore deemed it desirable to state specifically that there is no Federal law or regulation which prevents banks from extending such credit and to point out that loans of this kind are not to be considered undesirable as a class. He went on to say that copies of the letter were submitted to the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the National Association of Supervisors of State Banks and that no unfavorable comments were received.

President Young indicated that the Reserve Banks would be glad to have this letter and bring it to the attention of their examiners.

The meeting then adjourned.

Kenneth A. Kenyon
Assistant Secretary

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