

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, December 14, 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. Fauver, Assistant Secretary  
Mr. Johnson, Controller, and Director,  
Division of Personnel Administration  
Mr. Solomon, Assistant General Counsel  
Mr. Horbett, Associate Director, Division of Bank Operations  
Mr. Sprecher, Assistant Director, Division of Personnel Administration

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:

Memorandum dated December 5, 1955, from Mr. Johnson, Controller, and Director, Division of Personnel Administration, recommending that the resignation of Frances C. Mader Frank, Substitute Nurse in that Division, be accepted effective December 15, 1955.

Approved unanimously.

Letter to Mr. Diercks, Vice President, Federal Reserve Bank of Chicago, reading as follows:

In accordance with the request contained in your letter of December 5, 1955 the Board approves the appointment of Edward A. Rusin as an assistant examiner for the Federal Reserve Bank of Chicago.

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Please advise as to the date upon which the appointment is made effective.

Approved unanimously.

Letter to the Board of Directors, Dauphin Deposit Trust Company, Harrisburg, Pennsylvania, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors of the Federal Reserve System hereby gives its written consent under the provisions of Section 18(c) of the Federal Deposit Insurance Act to the merger of Dauphin Deposit Trust Company, Harrisburg, Pennsylvania, with Market Street Trust Company, Harrisburg, Pennsylvania, and approves the establishment by the continuing bank of a branch at the present location of Market Street Trust Company (1006 Market Street, Harrisburg, Pennsylvania), provided the merger is carried out substantially in accordance with the agreement between the parties dated September 30, 1955, and the merger and establishment of the branch are effected within six months from the date of this letter.

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

Letter to the Board of Directors, The Chardon Savings Bank Company, Chardon, Ohio, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System approves the establishment of a branch in a shopping center which is being developed on Water Street about one mile west of the business section of Chardon, Ohio, and within the corporate limits of the village, by The Chardon Savings Bank Company, Chardon, Ohio, provided the branch is established within one year from the date of this letter and the approval of the State authorities is in effect as of the date the branch is established.

It is understood that the capital structure of the bank will be increased in the amount of \$202,500 through the sale of additional common stock during the early part of 1956.

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

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

Reference is made to your letter of November 29, 1955,  
advising of the proposal of The Bank of Tokyo of California,  
San Francisco, California, to move its Gardena Office, which  
is presently located at 15433 South Western Avenue, to  
16401 South Western Avenue, Gardena, California.

We concur in your view that the proposal constitutes  
a mere relocation of an existing branch in the immediate  
neighborhood without affecting the nature of its business  
or customers served, and, therefore, the approval of the  
Board of Governors is not necessary.

Approved unanimously.

Letter to Mr. Russell G. Smith, Executive Vice President, Bank of  
America, New York, New York, reading as follows:

This refers to your letter of November 15, 1955, trans-  
mitted through the Federal Reserve Bank of New York, with  
further reference to the Board's letter of September 8, 1955,  
to Mr. Jesse W. Tapp, Chairman of the Board of Directors of  
your Bank, enclosing copies of the report of examination of  
the Duesseldorf Branch of Bank of America made as of April 2,  
1955, by examiners for the Board of Governors.

It is noted that the report has been presented to your  
Board of Directors, and the Board is pleased to learn of the  
actions taken or contemplated with respect to the comments,  
recommendations, and suggestions of the examiner.

With respect to the deposit balances maintained with  
German banks at the time of the examination, the examiner com-  
mented that some of the balances appeared unduly large in re-  
lation to the capital structures of the depository banks and,  
in fact, to the size of Bank of America itself, and suggested  
that some greater diversification appeared to be in order.

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Regarding these comments, you express the belief that these balances were not unduly large in relation to your capital structure, stating that none of the amounts exceeded 10 per cent of your capital and surplus.

On the basis of the information contained in the report of examination, the balances being maintained with certain of the banks do appear large both with respect to the capital structures of the depositary banks and your own institution, even though less than 10 per cent of your capital and surplus. However, it is noted that additional German banks have been made depositaries of Deutsche Mark funds available to the Branch. It is assumed, of course, that your Home Office in New York is closely following all such arrangements, as well as any credit facilities made available to such institutions by Home Office and Duesseldorf Branch. Accordingly, this matter will be reviewed in connection with the next examination of Home Office.

Approved unanimously, with  
a copy to the Federal Reserve  
Banks of New York and San Francisco.

Letter for the signature of Chairman Martin to Mr. Byron Moser, Time Building, St. Louis, Missouri, reading as follows:

I appreciate your sending me with your letter of November 25, 1955, a copy of the final decree and judgment entered by Judge McMullan on November 14 in the suit for accounting filed by Mrs. Alex Berger and you on behalf of former owners of the stock of the Mercantile Commerce National Bank in St. Louis. It is noted that under the court's decree plaintiffs have been awarded \$161,256.44, together with expenses and costs.

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

There was presented a letter to Mrs. Valerie R. Frank, Secretary, Retirement System of the Federal Reserve Banks, c/o Federal Reserve Bank of New York, reading as follows:

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The Board of Governors has reviewed the action of the Board of Trustees of the Retirement System of the Federal Reserve Banks adopting certain amendments to the Rules and Regulations of the Retirement System, as set forth in your letter of November 30, 1955, and approves the adoption of these amendments.

The Board understands that these amendments have been considered by the Internal Revenue Service and are acceptable to it as complying with the requirements of Section 401(a) and Section 501(a) of the 1954 Code.

Appropriate revisions in the Board's letters S-741 and S-905 are being made to reflect the amendment covering involuntary separations.

Governor Mills explained the purpose of the principal amendment to the Rules and Regulations of the Retirement System relating to retirement benefits for employees involuntarily separated from service, and at his request Mr. Sprecher commented on the other amendments which would make it possible (1) to transfer full creditable service under the Board Plan to the Bank Plan where the incumbent transfers his employment from the Board of Governors to the Federal Reserve Bank; (2) to provide a means of permitting beneficiaries of deceased members receiving installment payments of a death benefit to designate successor beneficiaries to receive any unexpended funds in the event of a death of a primary beneficiary before receiving the entire amount due; and (3) to provide a "facility of payment" clause to permit payment of unexpended funds without requiring the appointment of a legal representative.

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In a discussion, it was brought out that the Board on August 3, 1955, informed Mr. C. S. Young, Chairman of the Conference of Presidents, that it would be prepared to approve an amendment to the Rules and Regulations for the purpose of providing a means of permitting the Banks to provide additional pension benefits to members involuntarily separating from service after attainment of age 55 and completion of 25 years creditable service, provided that such an amendment would be acceptable to the Internal Revenue Service and the Board of Trustees. Advice that the amendment was acceptable to the Internal Revenue Service as complying with the requirements of Section 401(a) and Section 501(a) of the 1954 Code was contained in a letter dated November 29, 1955, from Mr. Donald R. Moysey, Acting District Director of the Internal Revenue Service, to Mr. J. H. Wurts, Chairman of the Retirement Committee of the Retirement System of the Federal Reserve Banks.

Following the discussion,  
the foregoing letter to Mrs.  
Frank was approved unanimously.

The Board then took up the matter of an elevator program for the Cincinnati Branch of the Federal Reserve Bank of Cleveland, which had been discussed in a memorandum from Mr. Leonard dated December 5, 1955, and which had been circulated to the Board prior to this meeting.

The following telegram to  
Mr. Fulton, President, Federal

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Reserve Bank of Cleveland, was approved unanimously:

Relet November 25. Board will interpose no objection to awarding of contract for elevator installation at Cincinnati Branch to Otis at the figure shown, as recommended by the directors. Board also authorizes expenditure of not to exceed \$450,000 for the program, including provision for contingencies and architect's and engineer's fee.

The Board next discussed a memorandum dated December 10, 1955, from Mr. Leonard relating to the bids received on the construction of a new building for the Louisville Branch of the Federal Reserve Bank of St. Louis.

Governor Balderston raised the question whether, since all successful bidders were local contractors, the Board could assume that the various contractors were technically competent and that the bids had been handled in such a manner as to attract outside contractors.

Mr. Horbett reported that the Reserve Bank had made particular inquiry about the heating and air-conditioning contracts and had satisfied itself generally with respect to the competency of the successful bidders.

Mr. Carpenter added that yesterday Mr. Johns, President of the Federal Reserve Bank of St. Louis, stated to him that all bids for the project were opened publicly in a Louisville hotel with representatives of the bidders present, that the bids were read aloud as they were opened so that everyone present could tabulate them, and that subsequently

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several of the competing bidders commented to the effect that the manner in which the bids were handled was the best they had seen in Louisville.

Thereupon, the Board unanimously approved the following telegram to Mr. Johns:

Relet December 7. Board approves acceptance of bids for construction of new building for Louisville Branch, as recommended by the board of directors. Board authorizes expenditure of \$3,913,166, the total cost as submitted.

Mr. Horbett withdrew from the meeting at this point.

The Board then discussed a matter in connection with the audit of the Board's accounts by Arthur Andersen & Co. Mr. Carpenter stated that in accordance with the procedure approved by the Board, all the minutes of the Board are made available to the auditors and that he questioned whether the auditors should see the record of all of the actions taken by the Board or whether they should see only the minutes relating to the Board's internal management and expenditure of its funds, which were the subject of the audit. This would mean giving the auditors a certificate which would say that all minutes with respect to these matters had been furnished, rather than the certificate given in earlier years which covered all the minutes of the Board. He pointed out that under the present procedure minutes relating to confidential supervisory matters and actions with regard to credit and monetary policy were made available to the auditors and the question was whether the Board should be in the position of



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putting these confidential records in the hands of a private auditing firm and whether the firm should be placed in a position where question might be raised as to possible misuse of confidential information thus obtained.

Governor Robertson said the use of a "cut-off" date would assure that the auditors saw only past and not current actions. He suggested that the use of December 31 as "cut-off" date would coincide with the period of the audit and also provide a reasonable gap between the date the audit was made and current policy actions of the Board. The confidential professional relationship between the auditor and his client was stressed and the point was made that unless the auditors saw all actions they could not be sure they had seen all the actions relating to management operations. To do otherwise, Governor Robertson indicated, would put the Board in a position of withholding records which might be undesirable.

Mr. Johnson questioned whether, if the review of the auditors was to be limited in this respect, they might feel compelled to include a reservation in their audit report.

Chairman Martin indicated this was clearly a proper matter for consideration but that in his view the auditors should have access to whatever they wanted to enable them to render an unqualified report.

There was unanimous agreement  
that a "cut-off" date as suggested

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by Governor Robertson was desirable but it was understood that before such a date was fixed the staff would discuss the matter with representatives of Arthur Andersen & Co. and report back to the Board.

Mr. Solomon withdrew from the meeting at this point.

The Board then resumed its consideration of the Federal Reserve Bank budgets for 1956 which had been discussed by the Board at previous regular and executive sessions.

Upon recommendation of Governor Balderston, unanimous approval was given to the following letters for the signature of the Chairman to the respective Federal Reserve Banks:

Letter to the Federal Reserve Bank of Philadelphia reading as follows, and similar letters to the Federal Reserve Banks of Cleveland, Richmond, Atlanta, St. Louis, and San Francisco

The Board of Governors has reviewed and accepts the 1956 budget of the Federal Reserve Bank of Philadelphia, which was submitted with Mr. McCreedy's letter of September 28, 1955.

Separate advice is being given with respect to the Board's action concerning the 1956 salaries proposed for the various officers of your Bank.

Letter to the Federal Reserve Bank of Boston reading as follows, and similar letters to the Federal Reserve Banks of Chicago, Minneapolis, and Dallas

The Board of Governors has reviewed and accepts the 1956 budget of the Federal Reserve Bank of Boston, which was submitted with your letter of September 29, 1955.

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The Board looks upon the budget of each Reserve Bank as being, in a sense, a target for the forthcoming year. From this point of view it is most effective--to the management of a Bank and to the Board--if it reflects accurately the expectations for the budget period. It differs in this respect from an "appropriation" type of budget which may properly include an allowance for contingencies.

In this connection it is noted that for the last two years the number of employees budgeted by your Bank has been about 5 per cent in excess of the number actually employed. It is possible that the difference may have been caused, in part, by improvements in efficiency that exceeded expectations. Such improvements are, of course, gratifying and the men responsible should be encouraged to continue their efforts in this direction. However, the Board requests that the probable improvements, along with the lag in filling vacancies and other factors affecting the number of employees, be taken fully into account to improve the accuracy of future budgets.

Separate advice is being given with respect to the Board's action concerning the 1956 salaries proposed for the various officers of your Bank.

Letter to the Federal Reserve Bank of New York reading as follows:

The Board of Governors has reviewed and accepts the 1956 budget of the Federal Reserve Bank of New York, which was submitted with Mr. Treiber's letter of September 26, 1955.

While the Board of Governors recognizes that the manner in which funds are spent to further employee relations is a matter for decision primarily by the Board of Directors of your Bank, it would appreciate your reviewing the program proposed in the 1956 budget for this purpose. I would welcome an opportunity to discuss this subject with you.

It is noted that in submitting the budget Mr. Treiber indicated that it might be necessary, as a result of a salary study then in progress, to increase employees' salaries more

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than contemplated in the budget. It is further noted from Mr. Kimball's letter of November 15, 1955, that, following approval by the Board of Governors on November 3 of an upward revision in the salary structures of your Bank, your Directors approved on November 10 salary increases totaling approximately \$950,000, which is about \$500,000 more than was provided in the budget for this purpose.

Separate advice is being given with respect to the Board's action concerning the 1956 salaries proposed for the various officers of your Bank.

Letter to the Federal Reserve Bank of Kansas City reading as follows:

The Board of Governors has reviewed and accepts the 1956 budget of the Federal Reserve Bank of Kansas City, which was submitted with Mr. Koppang's letter of September 29, 1955.

It is noted that no provision was made in the budget for repairs, depreciation, furnishings and other expenses incident to the contemplated renovation of the first and twentieth floors at the Head Office, and to the new buildings at Denver and Omaha because the nature and extent of the proposed programs had not been finally determined when the budget was prepared. As soon as it is possible to estimate the nature and scope of 1956 expenditures for these purposes, revised budgets (Form F. R. 96a and Schedule X, if affected) should be submitted, along with appropriate explanations of the revised figures.

Separate advice is being given with respect to the Board's action concerning the 1956 salaries proposed for the various officers of your Bank.

Governor Balderston reported that the budget committee was not yet ready to report on the Board's budget for 1956, and that the committee has finished its review of the proposed budgets of the various Divisions.

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He also stated that Mr. Johnson was preparing a statement which would show the Division budgets as originally submitted and the changes suggested by the budget committee. Governor Balderston said the new statement would be ready early next week.

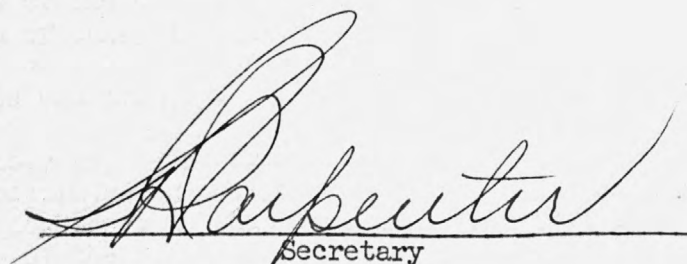
The meeting then adjourned.

Secretary's Note: Pursuant to the actions taken by the Board on November 29 and December 6, 1955, the following telegram was sent today to Mr. Carlos E. Allen, Jr., President, Campbell, Wyant & Cannon Foundry Company, Muskegon, Michigan:

Board of Governors Federal Reserve System has appointed you a Class C director Federal Reserve Bank Chicago for three-year term beginning January 1, 1956 and also appointed you to serve as Deputy Chairman Chicago Bank for 1956. Your acceptance by collect telegram would be appreciated.

It is understood you are not a director, officer, or stockholder of any bank and that you do not hold any political or public office. Should situation in these respects change during your tenure please advise Chairman Chicago Bank.

Please withhold announcement of your appointment until Board later announces appointments at all Reserve Banks and Branches.

  
Secretary