

Minutes for January 4, 1956.

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	x <u>M</u>	_____
Gov. Szymczak	x <u>MS</u>	_____
Gov. Vardaman	_____	x <u>(C)</u>
Gov. Mills	x <u>(Signature)</u>	_____
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u>(Signature)</u>	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, January 4, 1956. 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. Kenyon, Assistant Secretary  
 Mr. Fauver, Assistant Secretary  
 Mr. Thurston, Assistant 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. Thompson, Supervisory Review Examiner,  
 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 stated:

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

Reference is made to your letter of December 20, 1955, and enclosure regarding the request of Bankers Trust Company, New York, New York, for an extension of time within which to establish a branch at 415 Madison Avenue.

After consideration of all of the information available, the Board concurs in your recommendation and extends to August 16, 1956, the time within which the Bankers Trust Company may establish the above-described branch as originally approved in the Board's letter of February 16, 1955.

Approved unanimously.

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Letter to the Board of Directors, Victoria Bank and Trust Company, Victoria, Texas, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Dallas, the Board of Governors approves the establishment of a branch one block south of the main banking quarters by the Victoria Bank and Trust Company, Victoria, Texas.

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

With a covering memorandum dated December 30, 1955, Messrs. Carpenter and Fauver transmitted to the members of the Board copies of drafts prepared by the staff of replies to two letters received from Chairman Dawson of the House Committee on Government Operations requesting detailed information with respect to (1) "all committees created by and/or advising your department and any of its constituent parts since January 1, 1953 if there is serving on such committee any person other than a regular full-time Federal employee compensated on an annual basis", and (2) "all contracts or other arrangements made since January 1, 1953 with private firms or organizations for the examination or approval of the conduct of Federal activities under your jurisdiction or for the purpose of collecting information or rendering advice in connection with the conduct of such activities."

Following an informal discussion at the conclusion of yesterday's meeting of the Board, an alternative draft of the letter to Chairman Dawson on "committees" was prepared and copies thereof were sent to the members of the Board prior to this meeting.

Preference having been expressed  
by all of the members of the Board for

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the alternative draft of the letter on "committees", unanimous approval was given to letters for the signature of Chairman Martin to Chairman Dawson reading as follows:

This is in reply to your letter of November 21 requesting that the Committee on Government Operations be furnished with information regarding all committees created by and/or advising the Federal Reserve Board since January 1953.

Attached are descriptions of five such committees which were created in 1954 at the request of the Chairman of the Subcommittee on Economic Statistics of the Joint Committee on the Economic Report. A sixth committee, the Exploratory Committee on Longer-Term Financial Problems, which has recently been appointed by the Board to consider problems of basic research in the areas of money and credit, is also described in an attached report. These are the only committees that appear to fall within the scope of your request.

For completeness, however, we mention certain other committees or groups that are not believed to be of the kind described in your letter. One of these is the Joint Committee on Check Collection System. This Committee, organized in the spring of 1952, is comprised of representatives of the Federal Reserve Banks, the American Bankers Association, and the Association of Reserve City Bankers. Its purpose is to study ways of improving the efficiency of the nation's check collection. No member of the Board or of its staff has served on this Committee.

From time to time the Board submits technical staff papers and memoranda for evaluation and comment regarding the objectives being sought to panels of business, finance, labor, and academic economists. For example, in the recent review of the methods of compiling the Board's index of industrial production, copies of the working papers were sent to a list of those who are its ultimate users. Similarly, the Board occasionally arranges meetings, somewhat comparable to academic seminars, with various groups of economists for the purpose of obtaining their comments on technical papers prepared by the Board's staff. Such panelists do not comprise organized committees and are brought together for a single purpose and a single occasion.

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Two groups should be mentioned in the interest of completeness, although again not believed to be of the kind described in your letter because they are statutory bodies. The Federal Advisory Council was created by the original Federal Reserve Act (Section 12) adopted in 1913, and consists of one member from each Federal Reserve District selected annually by the board of directors of that Reserve Bank. Pursuant to law, the Council meets at least four times a year in Washington to confer with the Board of Governors on System matters. Likewise, under Section 13b(d) of the Federal Reserve Act, each Federal Reserve Bank is required to appoint an Industrial Advisory Committee to carry out the provisions of Section 13b relating to direct loans for working capital purposes to either industrial or commercial businesses. It is the function of these Committees to review applications for loans and to make recommendations concerning them to the Federal Reserve Banks

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As requested in your letter of November 21 there is attached information concerning contractual arrangements made by the Board of Governors since January 1, 1953, with private organizations for the examination and audit of the Board and for the conduct of the annual Survey of Consumer Finances. These are the only contracts which the Board has made since January 1953 which appear to come within the scope of your Committee's request as outlined in your letter.

Contracts with Arthur Andersen & Company for the purpose of an audit of the books and accounts of the Board of Governors of the Federal Reserve System covered the calendar years 1953, 1954, and 1955. A separate arrangement with this same firm provided for a review and appraisal of the procedures followed by the Board's examiners in the examination of the 12 Federal Reserve Banks. Another contract, coming within the scope of "collecting information . . . in connection with the conduct of (Federal) activities", is with the Survey Research Center at the University of Michigan. The Board has utilized the services of this University-connected research center since 1946 in connection with its annual Survey of Consumer Finances.

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Mr. Thurston then withdrew from the meeting.

There had been circulated to the members of the Board a memorandum from the Division of Examinations dated December 13, 1955, concerning two articles that appeared in the December 1, 1955 issue of the American Banker relating to Transamerica Corporation, San Francisco, California. One article stated that, subject to approval by the shareholders of both banks and approval by supervisory officials, the Miners and Merchants Bank, Bisbee, Arizona, a State nonmember bank, would merge with the First National Bank of Arizona, Phoenix, Phoenix, Arizona, an institution controlled by Transamerica. The other article stated that acquisition by Transamerica of the Southern Arizona Bank and Trust Company, Tucson, Arizona, a State member bank, had been announced, Transamerica having acquired more than 98 per cent of the outstanding shares of the member bank.

The memorandum pointed out that the Office of the Comptroller of the Currency apparently had adopted the procedure of requesting the Board's views as to the Clayton Act aspects of any absorptions involving the establishment of branches by national banks in holding company affiliate groups and, although the Comptroller's Office had made no such request as yet in connection with the Bisbee case, the memorandum was submitted with that procedure in mind. A supplemental memorandum analyzed the banking situation in Arizona, and in parts of that State, in the light of the articles appearing in the American Banker. It was brought out that if the Bisbee

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bank were absorbed by the First National Bank of Arizona and if Trans-america continued to operate the Southern Arizona Bank and Trust Company, there would be no reduction of banking facilities, and that the changes might have a tendency toward increasing competition offered to the larger Valley National Bank group. The memorandum stated that the Division of Examinations would recommend the issuance of voting permits to Transamerica covering the member bank in Tucson and also the bank in Bisbee, if the latter bank were operated as a unit in the Transamerica group and were converted to member bank status.

Along with the aforementioned memorandum there had been circulated a memorandum from Mr. Hexter dated December 27, 1955, discussing the situation. It was brought out that the proposed merger of the Bisbee bank apparently would not involve any stock acquisition by Transamerica or its subsidiary, so that the transaction could not legally give rise to action by the Board under section 7 of the Clayton Act even if there were a substantial lessening of competition or tendency toward monopoly. Furthermore, the available information suggested that the chief effect of the absorption would be to oppose the Valley National group, in Bisbee and in southern Arizona, with a branch of the second largest bank in the State in place of a relatively small independent bank. In Tucson, which until the reported stock acquisition was served by the main office and branches of Southern Arizona Bank and Trust Company, branches of Valley National

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Bank, and branches of the Bank of Douglas, a State nonmember bank dominated by Valley, Transamerica's acquisition of Southern Arizona Bank and Trust Company apparently would not affect the competitive situation. However, a possibility of a substantial lessening of competition might exist if the Phoenix-Tucson area could properly be regarded as the area of effective banking competition for purposes of the Clayton Act. In that event, it might be contended that prior to the acquisition the area was served by three competitive banks (Valley in both cities, First National Bank of Arizona in Phoenix, and Southern Arizona Bank and Trust Company in Tucson). The memorandum expressed the opinion that this would provide only a tenuous basis, if any, for a section 7 proceeding.

Subsequent to the circulation to the Board of the memoranda above referred to, Transamerica Corporation applied for a limited voting permit to vote its stock in Southern Arizona Bank and Trust Company at the annual meeting of shareholders to be held on January 10, 1956, to elect directors and to act upon other matters of a routine nature; and to vote its stock at a special shareholders' meeting in favor of a proposed increase in the bank's capital in a minimum amount of \$1 million. The Federal Reserve Bank of San Francisco later advised that an application for a general voting permit had been received and was being processed. In view of the impending annual meeting of shareholders, the Division of Examinations, in a memorandum dated December 30, 1955, recommended that a limited voting permit be granted for the purposes requested.



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At the request of the Board, Mr. Hexter reviewed the banking situation in Arizona and various aspects of the transactions discussed in his memorandum. He said it was his conclusion that the Tucson acquisition was not an appropriate case for a Clayton Act proceeding. He pointed out, among other things, that the situation between the Transamerica-controlled banks and the Valley National group banks would be highly competitive, with the latter group remaining larger than the Transamerica group. He saw little objection to granting the requested limited voting permit unless the Board wanted to set its face firmly against Transamerica's further growth in the State of Arizona.

Governor Robertson said he was inclined to agree that the possibility of a Clayton Act proceeding was not very great and that a limited voting permit should be granted. He suggested, however, that before any action was taken on a general voting permit, the Legal Division reconsider the Tucson situation from the standpoint of the Clayton Act in the light of the situation throughout southern Arizona and include in its review a study of the acquisition of Bank of Douglas by the Valley National group. In Tucson, he said, the competitive situation apparently had not been diminished by the acquisition of Southern Arizona Bank and Trust Company by Transamerica, but in southern Arizona only two banking competitors would remain whereas there had been four before Southern Arizona and the Bank of Douglas were acquired by the Transamerica and Valley groups, respectively. From the standpoint of applicants for credit, he felt that

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the situation undoubtedly would be better if there were four competing institutions in the area.

Mr. Hexter said that he and Mr. Vest had discussed the possibility of an investigation of that sort but had concluded that there would have to be a factual investigation of competition in southern Arizona, for example to determine whether a borrower in Tucson might go to Phoenix, or vice versa, if he was not satisfied in his own community. He suggested, in other words, that the question whether the Tucson-Phoenix area, or southern Arizona generally, would constitute an area of competition for Clayton Act purposes could not be determined from material available at the Board's offices.

Governor Robertson agreed, and said he thought the Board had a responsibility to have such a factual investigation made. At the present time, he said, four sizeable institutions exist in the State of Arizona, but mergers might reduce the number to two and it would seem appropriate to have a factual study made by a Federal Reserve Bank before any such mergers took place. If necessary, he added, the Board could send some person or persons from its staff to assist in the investigation. The Board then would have all of the facts and could be sure there was nothing it could or should do about the situation before coming to a final determination.

Governor Mills said he agreed with Governor Robertson provided the Board was sure of its position in undertaking an investigation of the kind

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mentioned. As he understood the matter, Transamerica had followed lawful practice in acquiring Southern Arizona Bank and Trust Company and had done nothing in contravention of the Clayton Act or existing bank holding company legislation. While the Board might like to see the present laws amended, and an investigation might be helpful in indicating how the laws should be changed, it had to act for the present on the basis of existing statutes and any investigation should be undertaken on that basis.

Governor Robertson said he had in mind that the investigation would be entered into on the assumption that the Board did not know whether the Clayton Act was applicable to the situation and that the data would be developed primarily for that purpose, although it might also provide a basis on which to formulate legislative proposals that the Board might wish to make. In response to another question by Governor Mills, he said that in his opinion the fact that a limited voting permit was granted to Transamerica Corporation to vote its stock in Southern Arizona Bank and Trust Company would not affect adversely any subsequent Clayton Act proceeding.

Mr. Vest agreed with Governor Robertson's statement that the granting of a voting permit would not bar any action under section 7 of the Clayton Act if the case was justifiable, although it might be a little awkward to explain that the Board had lent its approval even to that limited extent. He also said that he did not see how a factual investigation could do any harm to the public interest or that it would be likely to produce any untoward results.

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Governor Robertson said that he had not yet advised the Office of the Comptroller of the Currency of the views of the Board following discussion at the meeting yesterday concerning the Lewiston, Idaho, matter. In view of an earlier comment by Mr. Hexter that he and Mr. Vest felt that if the factual investigation were made in Arizona the same thing should be done in other cases, he inquired whether they felt that the Lewiston matter should be held open. In response, Mr. Vest referred to the small amount of banking resources involved in the Lewiston case and said he had no feeling that the Board should defer advising the Comptroller's Office in accordance with the procedure agreed upon yesterday.

Mr. Sloan said that his principal concern would be with the type of investigation conducted, that those participating in the investigation would have to interview a number of people and request voluntary depositions, and that it therefore would be difficult to carry out the assignment without the knowledge of the principal parties at interest. He felt that the principals should be informed and that a public hearing might be desirable.

Governor Robertson agreed that no effort should be made to maintain any element of secrecy, stating that he would favor making it clear to the principal parties that an investigation was being undertaken and what the purposes were.

Chairman Martin concurred in Governor Robertson's statement. He then suggested that the limited voting permit for Transamerica Corporation

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be approved and that an investigation of the competitive banking situation in Arizona along the lines suggested be instituted.

Thereupon, it was agreed unanimously (1) to have such an investigation undertaken and (2) to send a telegram to Mr. Brawner, Chairman of the Federal Reserve Bank of San Francisco, authorizing the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to Transamerica Corporation authorizing such corporation to vote the stock which it owns or controls of Southern Arizona Bank and Trust Company at any time prior to April 1, 1956, (1) to elect directors of such bank at the annual meeting of shareholders or any adjournment thereof, and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meeting of such bank, and (2) to increase the capital structure of such bank by a minimum of \$1,000,000 at a special meeting of shareholders of such bank or any adjournments thereof.

Mr. Thompson then withdrew from the meeting.

There had been sent to the members of the Board copies of a memorandum from Mr. Hexter dated December 30, 1955, with regard to a proposal that debentures of the Banks for Cooperatives be "exempt securities" under section 5136 of the Revised Statutes of the United States. A letter of December 20, 1955, from the Bureau of the Budget had requested the Board's views on a draft bill submitted by the Farm Credit Administration (1) to merge production credit corporations into Federal Intermediate Credit Banks, (2) to provide for retirement of Government capital in Federal Intermediate Credit Banks, and (3) to provide for supervision of production

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credit associations. While these main objectives of the draft bill would not affect the Board's monetary or bank supervisory responsibilities significantly, the bill also contained a provision that would amend section 5136 to give "exempt security" status to the debentures of the Banks for Cooperatives. Through such exemption national and State member banks would be permitted to invest in the debentures without any limit on amount and to underwrite and deal in them. In addition to the Budget Bureau request, Governor Robertson had had a telephone conversation with, and a letter from, Mr. A. T. Esgate, Acting Governor of Farm Credit Administration, with respect to the proposal to amend section 5136; and Governor Robertson had told Mr. Esgate that he would be given a further opportunity to discuss the matter should the Board be inclined to recommend against the proposal. It did not appear from Mr. Esgate's letter that there had been any material difficulty in selling the debentures, and apparently the principal point of the proposal was that if the debentures were exempt securities (like Federal Intermediate Credit Bank debentures) they would be marketable at a somewhat lower rate of interest. Mr. Esgate's letter stated that the Comptroller of the Currency had informally advised Farm Credit Administration that he had no objection to the proposal.

Mr. Hexter's memorandum stated that although the matter was of relatively little quantitative importance, the debentures probably should not be exempt securities and Farm Credit Administration's reasons for desiring the exemption did not justify a departure from principle. The

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Board's staff agreed, according to the memorandum, that these debentures might be comparable in quality to the intermediate credit bank debentures but felt that in principle neither of the securities should be exempt. Attached to the memorandum was a proposed letter to the Budget Bureau which would express the view that the debentures of the Banks for Cooperatives should not be exempt under section 5136 and that such exemption might also be inappropriate with respect to the intermediate credit bank debentures. However, the Board's staff questioned, according to Mr. Hexter's memorandum, whether an expression of opinion on the latter securities was advisable since it was unlikely that the Congress would terminate the exemption and the only effect might be to affect adversely the relationships between the Board and Farm Credit Administration.

In discussing the matter, Mr. Hexter recalled that in 1950 and again in 1954 similar proposals were made by Farm Credit Administration and that in letters to the Budget Bureau on both occasions the Board stated that it saw no sound reason for granting exempt status to the debentures of the Banks for Cooperatives. He also said that in the opinion of the Board's staff the debentures were not of a quality which would make it appropriate that they should enjoy exempt status. In fact, the staff doubted whether the Federal Intermediate Credit Bank debentures were on the same level as either United States Government securities or general obligations of States and political subdivisions.

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Governor Mills said that he agreed thoroughly with the staff's views on the debentures of the Banks for Cooperatives. He went on to say that the Board had been asked by the Budget Bureau to review and comment upon the entire draft bill, that under this bill the production credit associations would be merged into the Federal Intermediate Credit Banks, that Government capital in the latter would be withdrawn, and that the result would be a private operation the securities of which would have exempt status under section 5136. He suggested that the Board's reply point out that the bill would alter the concept under which exempt status had been accorded to Federal Intermediate Credit Bank debentures.

Governor Shepardson commented that Federal Land Bank bonds had been accorded exempt status and inquired what distinctions could be made between those bonds and the debentures of the Banks for Cooperatives and the Federal Intermediate Credit Banks.

Discussion of this point brought out that the exemption for the Federal Land Bank bonds was provided by the McFadden Act of 1927, which also formed the basis for exemption of the intermediate credit bank debentures, and that the exemptions probably were attributable principally to considerations not directly related to the quality of the securities. It was also brought out that from the bank supervisory standpoint, the characteristics of the land bank bonds were not greatly different from those of the intermediate credit bank debentures.



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Governor Robertson expressed the view that the exemption should not have been provided originally for either class of securities and that the Board's recommendation to the Budget Bureau should be made on the basis of that principle. It was his suggestion, however, that before a letter was written, Mr. Esgate be given an opportunity to visit the Board's offices and present the views of Farm Credit Administration.

Following further discussion, it was agreed unanimously that Mr. Esgate should be advised informally that the Board was inclined to take an adverse position regarding the proposal to exempt the debentures of the Banks for Cooperatives, that an invitation should be extended to Mr. Esgate to visit the Board's offices, if he desired, for a discussion with Governor Robertson and members of the staff, and that if he accepted the invitation, the views which he presented would be summarized at a meeting of the Board before any letter was sent to the Bureau of the Budget.

Messrs. Young, Sloan, and Hexter then withdrew and Mr. Myrick, Assistant Director, Division of Bank Operations, entered the room.

President Leach, Chairman of the Presidents' Conference Committee on Fiscal Agency Operations, wrote to Governor Szymczak under date of December 29, 1955, transmitting copies of correspondence between the Treasury and Post Office Departments relating to the question of reimbursement to the Federal Reserve Banks for expense incurred in the handling of postmasters' deposits. From the enclosed correspondence, it appeared that

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the Post Office Department was agreeable to reimbursing the Banks for only about 15 per cent of the cost on the premise that the remaining cost was incidental to a Federal depository function. If the Banks must be fully reimbursed, it was the Post Office Department's position that the Treasury should assume responsibility for the remaining 85 per cent of the cost, this position being based on the earlier availability of funds to the Treasury under the Federal Reserve deposit system than under the alternative procedure of having the funds handled and accumulated in commercial banks. The Treasury was in agreement with the policy of reimbursement to the Reserve Banks for work undertaken for executive agencies of the Government, but felt that it should not be the agency to bear the cost of this activity and go to the Congress for an appropriation. The Treasury stated that the Bureau of the Budget supported its position. President Leach's letter suggested that the members of the Committee on Fiscal Agency Operations meet with Governor Szymczak to discuss the situation on January 10, 1956, following the scheduled meeting of the Federal Open Market Committee. In the circumstances, Governor Szymczak sent copies of the correspondence to the other members of the Board with a view to obtaining their opinions.

After Governor Szymczak had commented on the matter, the Board called upon Mr. Vest, who said that he thought the Reserve Banks were entitled to reimbursement for handling the deposits, that this would be

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in accordance with the position that the Banks had taken that they should be reimbursed because this function was not the ordinary kind of depository function, and that this position reflected the fact that the function involves more detail than normally is the case under a depository arrangement. He described the operation as a retail transaction, as distinguished from a wholesale transaction, deposits of various sizes being received from approximately 40,000 postmasters. With regard to the legal right of the Reserve Banks to reimbursement, he quoted from section 15 of the Federal Reserve Act and said it did not appear that the Banks could legally insist on reimbursement for fiscal agency or depository functions. Historically, he brought out, there has been a distinction under which depository operations have been handled without reimbursement and other fiscal agency operations for the Treasury and other Government agencies have been handled on a reimbursable basis. To the extent that the handling of postmasters' deposits could be said to be a depository function, the Post Office could argue that there should be no reimbursement and could cite the practice followed by the Reserve Banks in the past.

Mr. Leonard then made a statement in which he described the handling of the deposits and recalled that the operation was undertaken through the mediation of the Treasury, which was endeavoring to assist the Post Office Department in devising an alternative to an arrangement whereby the deposits would be made by the postmasters in designated commercial banks.

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Substantial pressures were being brought to bear on the Post Office Department by commercial banks seeking to be designated. During the initial discussions, Mr. Leonard said, the question of reimbursement came up and, while no understanding was reached at that time, it was later agreed that the function should be on a reimbursable basis. However, the question of who would make the reimbursement was not settled. It was Mr. Leonard's understanding, incidentally, that the Post Office had certain funds available to it out of which it could make payment without recourse to appropriated funds. He then pointed out that the Post Office had effected substantial savings through the present arrangement by eliminating its central accounting offices that previously received the deposits. He said that for the Reserve Banks it was definitely a retail transaction, that separate departments had been set up at the Banks, and that the work was being done efficiently. He expressed concern that if the Reserve Banks could be required to act as depositories for postmasters, it would seem logical that they might be required to undertake similar operations for other agencies.

Mr. Leonard then suggested that if the Post Office would not make reimbursement for the full annual cost (currently about \$475,000) perhaps it would be better not to accept the offer of 15 per cent reimbursement. If the offer were refused, there could be a definite understanding that the Reserve Banks would not undertake any additional operations for the

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Post Office Department and the Banks would be in a better position to handle the postmasters' deposits in the way they found most efficient.

Governor Robertson said he thought it would be unwise to accept reimbursement for otherwise the whole question of Federal Reserve free services for member banks might be raised. He expressed the view that the only justification for reimbursement for fiscal agency functions is to provide a means of vetoing additional functions and that the need was for legislative authority to refuse to perform such services where refusal was felt to be warranted. He agreed with Mr. Leonard that refusal to accept the offer of partial reimbursement would give the Reserve Banks better control over the handling of postmasters' deposits.

Governor Balderston expressed concern about the precedent implied in Governor Robertson's comments and suggested that it might be desirable for the Board to ask the appropriate Congressional committees for assistance in clarifying the question of reimbursement for fiscal agency operations. Failure to require reimbursement at the present time, he said, might leave the door open for executive agencies of the Government to ask the Reserve Banks to take over more and more work.

Chairman Martin and Governor Shepardson stated that they were inclined to agree with the views expressed by Governor Robertson regarding the general problem.

Governor Mills said he believed strongly in the principle of reimbursement to prevent agencies of the Government from attempting to reduce

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their budget expenditures by shifting activities to the Federal Reserve Banks. He felt that the System had a strong case before the Congress in asking for reimbursement for such operations. Since the handling of postmasters' deposits appeared to be a borderline function, much of which might be called a depository function, and because the amount of reimbursement involved was relatively small, he agreed that the Reserve Banks might as well forego reimbursement in this instance.

Governor Szymczak said he understood it to be the consensus of the Board that if reimbursement was not offered in full, none should be accepted; that if there was no reimbursement, the Reserve Banks would have better control over the operation; and that although it had been the understanding that the operation was to be on a reimbursable basis, the Board would not favor pushing the matter any further unless the Treasury wished to take the initiative.

All of the members of the staff except Messrs. Carpenter and Fauver then withdrew and the Board took up the matter of vacancies on the Buffalo, Omaha and San Antonio Branch boards of directors. Memoranda on candidates for these vacancies had been distributed prior to the meeting.

For the Buffalo Branch of the Federal Reserve Bank of New York, it was agreed that Chairman Martin would ask Chairman Crane to ascertain whether Mr. Edmund F. Martin, General Manager, Bethlehem Steel Corporation Plants, Lackawanna, New York, would accept, if tendered, appointment as a director for the term ending December 31, 1958.

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For the Omaha Branch of the Federal Reserve Bank of Kansas City, it was agreed that Chairman Martin would ask Chairman Hall to determine whether Mr. James L. Paxton, Jr., President, Paxton-Mitchell Company of Omaha, would accept, if tendered, appointment as a director for the term ending December 31, 1957, Mr. Gilbert C. Swanson having advised that it would not be possible for him to accept reappointment to serve in that capacity.

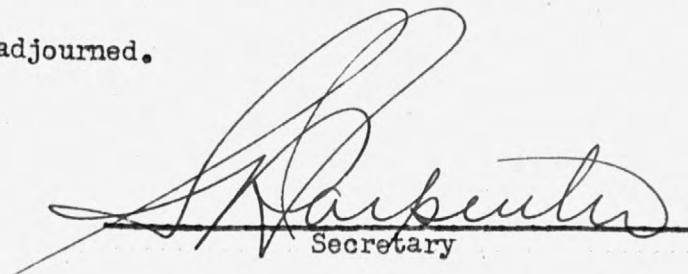
For the San Antonio Branch of the Federal Reserve Bank of Dallas, it was agreed that Chairman Martin would ask Chairman Smith to ascertain whether Mr. Harold Vagtborg, President, Southwest Foundation for Research and Education of San Antonio, would accept, if tendered, appointment as a director for the term ending December 31, 1958.

It was also agreed to make all of the above appointments if the individuals involved indicated they would accept.

There was a discussion of whether newly appointed directors of the Federal Reserve Banks and branches should be invited to come to Washington for a program similar to those arranged in 1954 and 1955.

It was agreed to fix Friday, February 17, as the tentative date for such a program and to contact the Chairmen of the respective Reserve Banks to determine whether the suggested date would be a convenient one.

The meeting then adjourned.

  
Secretary