

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 Wednesday, January 25, 1956, at 3:00 p.m.

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

Mr. Carpenter, Secretary
 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

Governor Balderston stated that Chairman Martin was unable to attend this meeting because of a matter which had arisen earlier today.

The Presidents had submitted to the Board earlier a memorandum listing and commenting on the topics which they 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:

1/25/56

-2-

1. Legislation to improve competitive position of national bank branches abroad. The Conference gave its attention to the Board's letter of January 20, 1956, concerning the proposal to amend Section 25 of the Federal Reserve Act to permit the Board to issue regulations which may authorize foreign branches of American banks to exercise such further powers beyond those permitted by the present law as may be usual in connection with the transaction of the business of banking in the places where foreign branches are located. While the Presidents had no opportunity to weigh the specific details and ramifications of this proposal, they indicated their general agreement with the objective of improving the competitive position of foreign branches of national banks.

Following a statement by President Young, Governor Szymczak commented that it would be helpful to the Board if each of the Presidents would give further consideration to the proposal in the light of the memorandum enclosed with the Board's letter of January 20, 1956, and advise the Board as soon as possible of any comments or suggestions that they might have. It was agreed that the procedure suggested by Governor Szymczak would be followed and that the Presidents who had any comments would submit them promptly.

2. Authority to permit member banks to count vault cash as part of required reserves. The Conference considered the Board's letter of December 30, 1955, concerning the proposed amendment to Section 19 of the Federal Reserve Act to authorize the Board of Governors to permit member banks to count vault cash as part of required reserves. The Presidents concurred in the view that the vault cash proposal should be pursued with the emphasis of argument shifted from emergency needs to the redress of inequities and abnormalities and with intensive study of means of coordinating such action with current credit policy and the operations of the Open Market Account.

1/25/56

-3-

The Presidents observed that, were a program for fundamental revision of member bank reserve requirements reasonably in prospect, the proposal to make vault cash reserve-eligible should be incorporated as a part of such broader program. Assuming that basic reserve requirement reforms remained unforeseeable, however, the view was expressed that efforts to obtain specific authority to make vault cash reserve-eligible should not be justified primarily on the grounds of preparation for emergency. The extent to which the action would produce larger cash holdings outside target areas was regarded as problematical, and there was some opinion that requests for authority so justified might lead to restrictions upon the flexibility with which such authority could be exercised by the Board. Stress was placed upon the necessity for careful integration of this action and its attendant release of reserves with over-all credit policy.

President Young stated that the Conference had discussed this topic fully and that there was almost unanimous agreement with the views set forth in the above statement.

Question was raised whether the statement might be interpreted to mean that the Board should feel free to proceed, if it concluded to do so, with the submission of a request for legislation to amend Section 19 of the Federal Reserve Act in the manner proposed in the draft of amendment enclosed with its letter of December 30, 1955.

In response, President Young referred to the part of the statement which indicated concurrence by the Presidents in the view that the vault cash proposal should be pursued, but with the suggestion that emphasis be placed on the redress of inequities rather than emergency preparations.

1/25/56

-4-

Governor Robertson said he agreed that the emergency planning aspects should not be overstressed. He assumed from the Presidents' statement, however, that there would be no objection if, as the result of questions, some reference was made to that feature of the proposal.

In reply, President Young drew attention to the view expressed by the Presidents that efforts to obtain authority to make vault cash reserve-eligible should not be justified primarily on the grounds of preparation for an emergency.

3. Proposed agricultural loan survey. The Conference considered the January 6, 1956, report of the Research Subcommittee on Proposed Agricultural Loan Survey and comments pertinent thereto by the Committee on Research and Statistics. The Presidents regarded the frequency of proposed surveys as a matter of some concern from the point of view of bank relations, but they recognized the desirability of developing an organized and comprehensive body of data regarding credit availability to the farmer in the current environment. Accordingly, the Conference gave its approval in principle to a survey of bank loans to farmers as described in the subcommittee report, subject to such technical modifications as subsequent review and testing may suggest.

Following comments by President Young and an expression of concurrence in the views of the Conference by Governor Shepardson, it was understood that the Board and Reserve Bank staffs would continue their planning and that the precise timing of the survey would be settled at a later date. With regard to the timing, Governor Shepardson said it was the present thinking that the survey should be conducted next June.

1/25/56

-5-

4. Revision of Loss Sharing Agreement. The Presidents considered the December 14, 1955, report of the Insurance Committee, revising and supplementing the material presented in the May 11, 1955, report of that committee concerning the proposed revision of the Loss Sharing Agreement and the Rules and Bylaws of the Insurance Committee. The Conference at its June 20-21, 1955, meeting had requested the committee to reconsider those portions of the Agreement and proposed revisions dealing with the formulas for distribution and absorption of losses, coverage of losses from nuclear reaction, and limitations upon coverage of money shipments between Reserve Bank offices. On the basis of the revised wording in the December 14, 1955, report, the Conference approved the general revision of the Loss Sharing Agreement and Rules and Bylaws as outlined by the committee.

President Earhart reviewed reasons why the Presidents' Conference, following consideration of the May 11, 1955, report of the Insurance Committee, requested the Committee to reconsider certain proposed revisions of the Loss Sharing Agreement. He then indicated the nature of the revisions contemplated by the Committee's report of December 14, 1955, which the Conference approved.

Governor Balderston stated that upon receipt of a copy of the revised Loss Sharing Agreement, as approved by the Presidents, the Board would study the revision and advise the Presidents of its views.

5. Review of policies regarding reimbursable expenses. The Conference gave its attention to the report of the January 10-11, 1956, meeting of the Subcommittee on Fiscal Agency Operations concerning the advisability of certain possible changes in the scope and computation of claims for reimbursement for expenses incurred in the performance of various fiscal agency

1/25/56

-6-

functions. The Conference recognized the variation over time in views on such matters. In addition, a few Presidents expressed concern with the proliferation of cost accounting records necessitated by current procedures. Approval was given, however, to the positions taken by the subcommittee, with the understanding that the way would remain open for further exploration of means of simplifying the computation of reimbursement.

President Leach made a statement in which he discussed the fiscal agency operations for which the Federal Reserve Banks currently receive reimbursement on an estimated unit cost basis for the System as a whole and explained why the Conference approved the position of the Subcommittee on Fiscal Agency Operations that this basis was not appropriate for computing reimbursement for other fiscal agency operations which the Banks now perform.

With respect to the question whether the Reserve Banks should continue to request reimbursement for so-called "miscellaneous expenses" incident to fiscal agency operations, he said that although this involved a substantial amount of accounting work, it was the view of the Presidents that the Banks should adhere to the general principle of seeking reimbursement for their full expenses attributable to fiscal agency functions. However, the Presidents requested the Subcommittee to explore means of simplifying the computation of reimbursement.

President Leach went on to say that the Presidents also considered the question whether the Reserve Banks should request reimbursement for

1/25/56

-7-

the cost of fiscal agency operations that go beyond those specified by Treasury regulations. He said that while the Presidents felt it might be sound in theory to request reimbursement only for the cost of required operations, it would be a difficult task to make a separation, partly because of the lack of specific procedural instructions in many instances. In the circumstances, the Presidents concluded that the Reserve Banks should continue to request reimbursement on the basis of expenses incurred.

Governor Balderston said that the Board was glad to have this report and would appreciate receiving information on further developments.

6. Additional items of information arising out of current Conference meeting. In addition to the above items on which action was taken, the following selected 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. To obtain time for study of the January 20, 1956 report of the Subcommittee on Personnel concerning separate salary structures for nonclerical jobs and maternity leave for employees, the Conference deferred action on this report until the following meeting.
 - b. The Conference indicated its approval of a program of investigation whereby the Subcommittee on Personnel would collect pertinent information underlying the wide variation in employee relations expenses on a per capita basis, present that material for consideration at the spring Conference of Personnel Officers, and thereafter submit a report on such findings for consideration by the Conference.

1/25/56

-8-

- c. The Conference accepted the November 30, 1955 report of the Subcommittee on Cash, Leased Wire, and Sundry Operations concerning revisions in technical procedures and operating instructions in connection with the expansion of the leased wire system for form transmission in open English. The Presidents were advised that the relevant materials were distributed subsequent to the last Conference meeting and prior to the date for change to open English transmission, subject to such later revisions as reviews and operating experience suggest.
- d. The Conference approved the recommendation contained in the January 20, 1956 report of the Subcommittee on Fiscal Agency Operations for the continuation through the final six months of fiscal 1956 of the current rate of reimbursement for handling depositary receipts of \$.11 per validated receipt.
- e. The Conference approved the recommendation contained in the January 20, 1956 report of the Subcommittee on Fiscal Agency Operations for an increase in the rate of reimbursement for verification and destruction of unfit Treasury currency to \$.26 per thousand pieces verified and destroyed during the final six months of fiscal 1956.
- f. The Conference considered and approved the January 6, 1956 report of the Subcommittee on Destruction of Records containing recommendations regarding minimum retention periods for various records and permanent retention of certain materials of historical value.
- g. The Conference discussed the January 6, 1956 report of the Special Committee on Studies of the Banking Structure outlining various policy questions and organizational revisions in plans for projected studies of the banking structure. An additional suggestion being considered by the

1/25/56

-9-

Conference is the initiation of a broad historical study of the economic environment of banking over the past few decades which might serve as background for qualitative judgments of recent structural changes.

- h. The Conference reviewed the January 20, 1956 progress report of the Special Committee on Emergency Operations concerning the current status of emergency planning matters receiving the attention of the Committee.
- i. The Conference reviewed and accepted the January 10, 1956 joint letter report of the Subcommittee on Collections and the Subcommittee of Counsel on Collections regarding possible adaptations in Reserve Bank procedures in conjunction with the proposed program for electronic processing of U. S. Treasury checks.
- j. The Conference reviewed and gave its approval to the draft letter distributed by Mr. Leach under his memorandum of January 18, 1956, to be addressed to Mr. Burgess, Under Secretary of the Treasury, concerning the matter of reimbursement for handling postmaster deposits.

Except for explanatory comments by members of the Presidents' Conference, there was no significant discussion of any of these items except item (g). With respect to that topic, President Williams outlined certain questions which had arisen in connection with plans for the projected studies of the banking structure and President Bryan then stated reasons which led him to suggest the broad historical study of the economic environment of banking over the past few decades. In response to a question, President Williams said that the Special Committee

1/25/56

-10-

had not yet formulated specific recommendations for implementing Mr. Bryan's suggestion, but that it might be found necessary to select a qualified individual to undertake the study on a full-time basis, with perhaps the assistance of an advisory committee. In such event, he said, the Special Committee would desire to confer with the Board's staff and the Research Departments of the Reserve Banks with a view to obtaining a highly competent person.

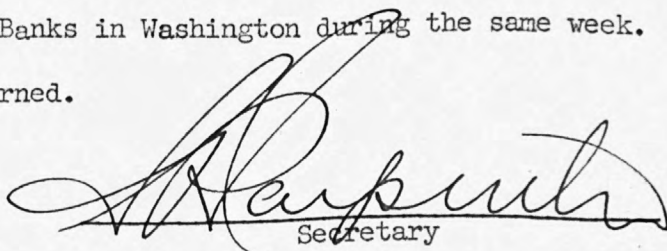
This concluded the discussion of the topics submitted by the Presidents' Conference.

On behalf of the Board, Vice Chairman Balderston expressed regret that this was the last meeting of the Presidents' Conference with the Board which Presidents Young and Earhart would attend prior to their retirement.

President Young stated that President Leedy had been elected Chairman of the Presidents' Conference, and President Erickson Vice Chairman, to serve until the conclusion of the joint meeting of the Board and the Presidents immediately following the first meeting of the Conference held in or after February 1957.

President Young also said that it was planned to hold the next meeting of the Presidents' Conference in the early part of May and that this contemplated holding the annual meeting of the Trustees of the Retirement System of the Federal Reserve Banks in Washington during the same week.

The meeting then adjourned.


Secretary