

Minutes for March 16, 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	<input checked="" type="checkbox"/> <u>mm</u>	_____
Gov. Szymczak	<input checked="" type="checkbox"/> _____	_____
Gov. Vardaman	<input checked="" type="checkbox"/> _____	_____
Gov. Mills	<input checked="" type="checkbox"/> _____	_____
Gov. Robertson	<input checked="" type="checkbox"/> <u>R</u>	_____
Gov. Balderston	<input checked="" type="checkbox"/> <u>ccrs</u>	_____
Gov. Shepardson	<input checked="" type="checkbox"/> <u>less</u>	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, March 16, 1956. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary  
 Mr. Fauver, Assistant Secretary  
 Mr. Riefler, Assistant to the Chairman  
 Mr. Thomas, Economic Adviser to the Board  
 Mr. Leonard, Director, Division of Bank Operations  
 Mr. Bethea, Director, Division of Administrative Services  
 Mr. Vest, General Counsel  
 Mr. Young, Director, Division of Research and Statistics  
 Mr. Johnson, Controller, and Director, Division of Personnel Administration  
 Mr. Hackley, Assistant General Counsel  
 Mr. Daniels, Assistant Controller, Office of the Controller

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:

Memoranda from appropriate individuals concerned recommending actions with respect to the Board's staff as follows:

Salary increase, effective March 25, 1956

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
Loretta D. Beale, Senior Records Clerk	Office of the Secretary	\$4,210	\$4,345

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Transfers

Eleanor E. Omohundro, from the position of Clerk-Stenographer in the Legal Division to the position of Secretary in the Division of Bank Operations, with an increase in her basic salary from \$4,480 to \$4,620 per annum, effective as of the date on which she assumes her new duties.

Dolores Ann Winkler, from the position of Stenographer in Governor Vardaman's office to the position of Secretary in the Division of Administrative Services, with no change in her present basic salary of \$3,670 per annum, effective March 25, 1956.

Acceptance of resignation

Eugene W. Lowe, Assistant Federal Reserve Examiner, Division of Examinations, effective March 19, 1956.

Approved unanimously.

Memorandum dated March 9, 1956, from the Staff Committee on Defense Planning recommending that security clearances be obtained for Evelyn R. Giannotti, William A. Horsley, and Robert C. Duffer of the message center at the relocation site, and that the clearance request for Mrs. Combs be withdrawn. The memorandum also recommended that the staff be authorized to make substitutions of Federal Reserve Bank employees when necessary so long as the total number authorized for clearance for work in the message center did not exceed the total of 30 previously authorized by the Board.

Approved unanimously.

Memorandum dated March 6, 1956, from the Division of Personnel Administration recommending that the Board approve a program of free chest x-ray examinations for all employees on the Board's staff similar to that in recent years and that continuing authority be granted to the Division of Personnel Administration to plan and conduct this program as a regular service of the Division. The memorandum also stated that arrangements would be made with the District of Columbia Tuberculosis Association to provide the free chest x-ray examinations for 1956 on April 17 and 18, and that a memorandum signed by Chairman Martin would be sent to all employees concerning details of time and place of the x-ray examinations.

Approved unanimously.

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Letter to Mr. Stetzelberger, Vice President, Federal Reserve Bank of Cleveland, reading as follows:

In view of the information submitted in your letter of March 5, 1956, and the Reserve Bank's recommendation, the Board of Governors extends until July 7, 1956, the time within which The Peoples Bank of Dayton, Dayton, Ohio, may establish a branch in the vicinity of 3550 South Dixie Drive, Moraine Township, Montgomery County, Ohio, under the authorization contained in its letter of April 7, 1955.

Approved unanimously.

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

Reference is made to your letter of March 2, 1956, enclosing a resolution adopted by the board of directors of Security State Bank, Keota, Iowa, signifying its intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice usually required for such withdrawal. Also enclosed was a letter from the president of the bank setting forth reason for withdrawal, and copy of opinion of Counsel regarding the resolution.

In accordance with the bank's request, the Board of Governors waives the requirement of six months' notice of withdrawal. Accordingly, upon surrender of the Federal Reserve Bank stock issued to the bank, you are authorized to cancel such stock and make appropriate refund thereon. Under the provisions of Section 10(c) of Regulation H, as amended effective September 1, 1952, the bank may accomplish termination of its membership at any time within eight months after notice of intention to withdraw is given. Please advise when cancellation is effected and refund is made.

The certificate of membership issued to the bank should be obtained, if possible, and forwarded to the Board. The State banking authorities should be advised of the bank's proposed withdrawal from membership and the date such withdrawal becomes effective.

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It is noted that the bank has made application to the Federal Deposit Insurance Corporation for continuance of deposit insurance after withdrawal from membership.

Approved unanimously.

Letters to The Honorable H. E. Cook, Chairman, Federal Deposit Insurance Corporation, Washington, D. C., reading as follows:

Reference is made to your letter of March 8, 1956, concerning the application of Security State Bank, Keota, Iowa, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

No corrective programs have been urged upon the bank or agreed to by it which, in the opinion of the Board of Governors, it would be considered desirable to incorporate as conditions to the continuance of deposit insurance.

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Reference is made to your letter of March 1, 1956, concerning the proposed merger of the Switz City Bank, Switz City, Indiana, and the Peoples Trust Company, Linton, Indiana, under the charter of the trust company, and the establishment of a branch of the continuing institution in Switz City.

No corrective programs have been urged upon the Switz City Bank or agreed to by it which, in the opinion of the Board of Governors, it would be considered desirable to incorporate as conditions in consenting to the transaction.

Approved unanimously.

Letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington, D. C., reading as follows:

In response to your request of March 7, 1956, you are advised that the Board is in favor of the objectives and purposes of the Export-Import Bank and would favor extension of its life until June 30, 1963.

Approved unanimously.

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Letter to Mr. Richard W. Eddy, Executive Secretary to Senator Styles Bridges, United States Senate, Washington, D. C., reading as follows:

This refers to your letter of March 5, 1956, to Mr. Shay of the Board's staff, concerning an inquiry received by you from a New Hampshire constituent. His question was stated in your letter as follows:

"With respect to Regulation T, if a customer purchases some stock on his cash account on Monday, which is payable on Friday, can he sell the stock on his margin account any day until Friday if he is going to use those funds to pay for the purchase he made Monday on his Cash Account. Or, does he have to sell the stock on Monday on his Margin Account?"

While the matter has been studied carefully, the facts and circumstances as set forth in the question presented by the constituent are not believed to be sufficiently detailed to justify an opinion as to what the answer under the regulation should be. However, as the constituent refers to his "margin account," as well as to his "cash account," some discussion of the required treatment of both types of accounts under the regulation may be helpful.

It may be noted from the attached copy of the Board's Regulation T that the principal rules governing margin accounts are contained in section 3 of the regulation dealing with "General Accounts." Under section 3(a) all financial relations between a broker and his customer constitute the customer's general (margin) account, except for relations permitted by section 4 to be included in any special account.

With respect to a margin purchase of securities in a general account for example, section 3(b) of the regulation requires that the standard margin prescribed by the Board (at present 70 per cent) be obtained by the broker "as promptly as possible and in any event before the expiration of three full business days" following the date of the transaction. If not so obtained, the broker shall take action to liquidate the transaction as required by section 3(c) which, as stated in

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the footnote, is not intended to countenance "free riding" or "three-day riding." Section 3(b) also forbids withdrawals from a general account if the effect is to decrease the margin below the amount required or to increase any deficiency in such margin.

A "Special Cash Account," which may be established for a customer by a broker under section 4(c) of the regulation, may be used only for "bona fide cash transactions in securities." Under section 4(c)(1)(A), a purchase of a security by a broker for his customer in such an account is permissible, "provided funds sufficient for the purpose are already held in the account or the purchase is in reliance upon an agreement accepted by the creditor (broker) in good faith that the customer will promptly make full cash payment for the security and that the customer does not contemplate selling the security prior to making such payment." Subject to certain exceptions, the broker is required by section 4(c)(2) promptly to cancel or otherwise liquidate the transaction or the unsettled portion thereof unless payment is made by the customer within seven full business days.

Under section 4(c)(1)(B) a sale of a security by a broker for his customer in a special cash account is permissible, "provided the security is held in the account or the creditor (broker) is informed that the customer or his principal owns the security and the . . . sale is in reliance upon an agreement accepted by the creditor in good faith that the security is to be promptly deposited in the account."

Section 4(a) lays down certain rules applicable with respect to all special accounts, including special cash accounts. Not only must a special account be recorded separately and confined to the transactions and relations specifically authorized for such an account, but if the customer has with the broker both a general (margin) account and one or more special accounts, the broker "shall treat each such special account as if the customer had no general account" with the broker. In addition, it is provided that a special account shall not be used in any way for the purpose of evading or circumventing any of the provisions of the regulation.

As indicated above, definite answers concerning the application of the regulation necessarily must depend upon all

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the relevant facts and circumstances. This is believed to be particularly true in cases involving the special account provisions of the regulation which, in effect, are exceptions to the rules applicable to treatment of general (margin) accounts.

It is regretted that a specific answer to the question as presented by the New Hampshire constituent cannot be given. It is hoped, however, that the above general discussion of certain provisions of the regulation may be of assistance in connection with the matter of interest to him.

Approved unanimously.

There were presented telegrams to the following Federal Reserve Banks approving the establishment without change on the dates indicated of the rates of discount and purchase in their existing schedules:

Boston	March 12
San Francisco	March 14
New York	March 15
Philadelphia	March 15

Approved unanimously.

The Board then resumed consideration of drafts of two proposed letters to Senator Fulbright, Chairman of the Committee on Banking and Currency, prepared in response to requests from Chairman Fulbright for reports on (1) bill S. 3296 to amend the Federal National Mortgage Association Charter Act, and (2) bill S. 3186 providing for the establishment of a Commission on National Housing Policy. The drafts of these letters were discussed at the Board meeting yesterday.

Governor Vardaman suggested an amendment to the second paragraph of the letter regarding S. 3186, including alternate wording for the



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sentence referring to the finding in the proposed declaration of policy and purpose.

The alternate wording suggested by Governor Vardaman was agreed to and the following letters for the signature of Chairman Martin to The Honorable J. W. Fulbright, Chairman, Committee on Banking and Currency, United States Senate, Washington, D. C., with copies to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, and to The Honorable W. Randolph Burgess, Under Secretary of the Treasury, were approved unanimously:

This letter is in reply to yours of February 29, 1956, requesting a report by the Board of Governors of the Federal Reserve System on S. 3296, a bill to amend the Federal National Mortgage Association Charter Act "to encourage private transactions in Federal Housing Administration insured and Veterans' Administration guaranteed mortgages at stabilized prices which approach or equal par value of such mortgages, and for other purposes."

The first section of the bill would amend the present requirement that persons selling mortgages to FNMA must purchase capital stock of FNMA equal to at least 3% of the unpaid principal amount of the mortgages sold. It would reduce the amount of such stock to be purchased to not more than 3%, or such lesser amount as would result in the seller of the mortgages receiving at least 95% of the unpaid principal of the mortgages, after deducting all service charges and fees and exclusive of the certificates for the stock.

The second section of the bill would strike out the requirement in present law that prices paid by FNMA for mortgages must be the market price for such mortgages, and the requirement that operations "should be fully self-supporting." It would also add a provision that FNMA operations should, within certain limits, "be so conducted as to promote stability in the mortgage market and so as to reduce price discriminations between different geographical areas."

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Section 3 of the bill would direct the FHA and VA to collect information for analyzing on a continuing basis the behavior of the secondary mortgage market for FHA and VA mortgages.

The Board of Governors believes that the enactment of this bill would not be conducive to long-term growth and stability either in the housing field or in the economy generally. In its judgment, a correct diagnosis of the problems experienced by the home building and mortgage industry in 1955 does not call for legislation along these lines, and, if enacted, such legislation would aggravate rather than ameliorate those problems.

The bill would seek to reduce the type of congestion that developed in the mortgage market during 1955 (when discounts developed on FHA and VA mortgages) by raising the prices at which FNMA would buy such mortgages, or reducing the amount of stock in FNMA which sellers are now required to purchase when they sell FHA insured or VA guaranteed mortgages to the FNMA. Consequently, it would seek to prevent the development of discounts on these mortgages from balancing the demand for mortgage loans of this type with the supply of savings available for investment in these mortgages. Since FNMA operates mainly with funds borrowed in the short-term money market, the effect would be a further diversion of short-term funds to long-term uses, and, in circumstances such as prevailed in 1955, an aggravation of the rise in shelter costs which the American people must bear. It ignores the salient problem that developed during 1955, namely, that the amount of mortgage money committed for new construction in 1955 overbalanced the supply of savings available, other competing demands for those savings, and the supply of labor and materials available for the home building industry. The ready availability of FHA insured and VA guaranteed mortgages, with their features protecting lenders against loss, contributed greatly to this imbalance.

In the judgment of the Board of Governors, mortgage developments during 1955 raised two fundamental problems of public concern, (1) the rise in construction costs, and (2) the possibility of a future break in real estate values in the event of oversupply. The volume of construction was so great in 1955 that construction costs rose between 5 and 10 per cent. Demands from

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all users of construction labor and construction materials contributed to this result, but the very large demand generated by residential builders, particularly those financed through the Government programs, was the outstanding contributor. Should these construction costs be maintained or increased further, the American people face a corresponding rise in their outlays for shelter. If, on the other hand, they are not maintained but fall subsequently because of a sharp diminution in demand for housing, an unstabilizing economic influence will result. This would follow should overbuilding result in saturation of the market leading first to a fall in real estate prices below construction costs and subsequently to unemployment in the construction industry.

In the context of the existing liberal insurance and guarantee arrangements in the field of Federally aided mortgage financing, it is the Board's view that further relaxation of the laws relating to FNMA should not be undertaken.

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This letter is in reply to yours of February 16 requesting a report by the Board of Governors of the Federal Reserve System on S. 3186, a bill to provide for the establishment of a Commission on National Housing Policy, which has been referred to your Committee for consideration.

The Board sees no objection to the establishment of such a commission provided the mandate in the bill does not predetermine the commission's findings. With an objective mandate the commission's study and report should be helpful in formulating sound housing policies. The proposed declaration of policy and purpose would contain a finding that "the periodic discounting of Government-supported mortgages demonstrates the lack of an orderly mortgage market and tends to negate public policy." The validity of this finding is certainly open to question. The fact that FHA and VA mortgages, which presumably are referred to, have fluctuated in price, along with other fixed interest securities, in the Board's judgment, does not in itself demonstrate the lack of an orderly mortgage market or the negation of public policy. Such fluctuation, on the contrary, is evidence of the normal operation of the

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capital market in allocating a limited supply of available savings among a variety of competing uses. The whole question of the nature and necessity of discounts should be one subject of the commission's study. The Board has serious question that a commission reporting under the bill as now drafted would be free to work on an objective report.

It is the Board's view that the declaration of policy and purpose might more appropriately refer to the need for policies which would encourage the development of the housing industry and real estate values along lines consistent with stable growth for the economy as a whole. Such policies require that the industry not be overstimulated to rates of production which are unsustainable and which create inflation in building costs and real estate prices and lead eventually to market saturation and subsequent stagnation and collapse. It is also important, in the Board's opinion, that any Federal program leave enough risk on private builders and lenders to assure prudence with respect to the volume and quality of building and volume of lending activity which they undertake.

Along the same lines, the Board believes that section 4 of the proposed bill, which describes the duties of the commission, might well be modified to emphasize the need for the commission to study all aspects of the problem. Thus it would seem desirable to include appropriate mention of price and cost fluctuations, and to select neutral wording for the list of subjects on which recommendations are to be formulated. For example, we believe it would be appropriate to substitute the word "should" for the word "can" in line 22 on page 5, and to revise lines 15 and 16 on the same page to recognize the relationship between administratively determined maximum interest rates and market discount rates.

The Board appreciates the opportunity to comment on the proposed legislation.

The Board then considered a memorandum, which had been distributed to the members of the Board, from Messrs. Riefler, Thomas, Young, and Carpenter regarding increased participation by Federal Reserve Bank directors in providing economic information to the Board. This subject

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had been referred to this committee at the Board's meeting on December 15, 1955. The memorandum proposed that a letter be sent to the Chairmen of all Federal Reserve Banks with copies to all Presidents requesting that the Board receive promptly the substance of directors' comments regarding any experiences, conversations, or observations either in their own business or otherwise which might indicate that the over-all economic situation is different from what the available statistics show it to be.

The letter to the Chairmen of all Federal Reserve Banks, with a copy to the Presidents, was approved unanimously in the following form for Chairman Martin's signature:

During the Board's discussion of the request made of the Federal Reserve Banks for a survey of the housing and automobile markets in the various Federal Reserve districts, an additional way was suggested in which the directors of the Federal Reserve Banks might be of help to the Board and the FOMC in the study and analysis of current economic and financial conditions. This general subject was also discussed at the last Chairmen's Conference.

As you know, there is a time lag in much of the statistical and other information on which monetary and credit policy decisions must be based. Trends or changes in the direction of the economy usually begin to develop some weeks or months before these movements are apparent in reports and statistics. The availability of any observations or other "straws in the wind" that would call attention to these changes could be of very great assistance.

The Board understands that the general economic and financial situation in the United States and in the Federal Reserve district is reviewed and discussed at the meetings of the board of directors of each of the Federal Reserve Banks. It is

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assumed that as a part of these discussions the directors report any experiences, conversations, or observations either in their own business or otherwise which might indicate that the over-all current economic situation is different from what the available statistics show it to be.

The Board believes that it would be helpful if it could receive promptly the substance of the directors' observations or comments on any such indications. These would include comments regarding State and municipal financing and spending, business plans, business spending, inventory accumulations and financing, new orders, production schedules, developments in real estate and other markets and in agriculture, consumer attitudes and consumer spending, prices, labor conditions including unemployment, prospective demand for credit, and the like. It should be emphasized that the comments would not include reports of developments that merely tend to confirm the data available from customary sources to the economists at the Reserve Banks or the Board. Instead, they would include the "straw in the wind" experiences, observations, judgments, or decisions by the directors and their associates that would show or suggest developments and trends not revealed by the statistics.

If such observations were brought out at a meeting which seemed pertinent and which would not otherwise come to the Board's attention promptly, the Board would be glad if the President would put them in a letter and send them along with any additional remarks he might have to make. If discussion at a meeting did not turn up comments of the sort described there would, of course, be no communication.

This letter is being sent to each of the Chairmen of the Federal Reserve Banks, with a copy to each of the Presidents. The Board will appreciate it if you will discuss the suggested procedure at your next meeting and, if agreeable to your Bank, put it into effect as an experiment to see if the close contact which Federal Reserve directors have with the economy might be made a greater source of the basic information needed to formulate effective System monetary and credit policies.

Governor Balderston then distributed copies of a memorandum dated March 15, 1956, to the members of the Board regarding the problem

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of providing additional office space to accommodate the needs of the staff. The memorandum pointed out that measures already taken or under way will make available 13 additional units of space. This virtually exhausts space within the existing structure, and is not adequate for normal growth much less provide for carrying out special projects in the research field, in defense planning, or in carrying out added responsibilities that might be placed on the Board by the Congress. There are three possibilities for additional space on a permanent basis: (1) proceeding with a new building on the "C" Street lot; (2) closing in the east and west wings of the present building; or (3) adding more space on the existing fourth floor. Considerable time would be involved in any of these alternatives and the immediate question is one of providing additional space outside of the building to provide insurance against acute over-crowding while any new construction was under way.

At Governor Balderston's request Mr. Bethea had checked a number of office buildings in an area within a one-mile radius of the building. Several buildings were found where space was available but which for various reasons were not deemed desirable. Within a half-mile radius there was only one office building where enough suitable space could be leased to house one complete division of the Board's staff. This is located at 1825 H Street, N. W.; it is an old building but presently undergoing complete renovation. There appears to be considerable demand for space

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in this building and in view of its desirability from the standpoint of layout, appurtenances and location, there is a question whether the Board might wish to consider leasing about 7,000 square feet, obtainable at a rental of approximately \$4.50 per square foot for a three year period. The space could be ready for occupancy within a month or six weeks after an office layout had been approved.

Governor Balderston suggested that any leasing arrangements, if made, should contain provision for subletting effective either initially or at a later date. He also mentioned the possibility of an option or a first refusal on the space in the H Street building.

In response to questions Mr. Bethea explained that this appeared to be the only building offering suitable accommodations but that he had not actually contacted rental agencies to inquire about rental space. He pointed out that some new construction was contemplated within the half-mile radius particularly with the development of the Potomac Plaza but that it was difficult to determine when such space would be available.

In trying to evaluate the intensity of the present use of the existing building, Governor Robertson inquired what the reasonable capacity of the present building was estimated to be at the time it was built. Mr. Bethea responded that he did not know such data to exist but he felt that the Board's use of this building was in line with standards of the General Services Administration, although we had more single offices than the ordinary Government agency.



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Governor Robertson expressed the view that every effort should be made to house the operations of the Board under a single roof, but that adequate insurance against a shortage of space was worth while and that if the Board were to lease space in the 1825 H Street building it could be easily subleased. He also suggested that the possibility of obtaining space in the Munitions Building across Constitution Avenue should be explored as it would be considerably more convenient even though perhaps not so desirable.

Governor Mills said he felt some definite steps should be taken to begin plans for a "C" Street addition in the light of the time involved first in restudying the original plans and then in actual construction.

Governor Vardaman added that in his opinion it would take at least three years to occupy a new building once a decision was made to go ahead with it; and that the Board should consider most carefully a major alteration in the existing structure such as filling in the wings because of the relatively low yield in additional space and the destruction of the architectural quality of the present structure. He also wondered whether thought had been given to using temporary space in some of the hallways for emergency needs.

Governor Shepardson expressed the view that if the number of units to be made available by closing in the wings of this building would provide adequate space for all foreseeable needs, then a decision regarding a new building could be delayed until future prospects were more clear.

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Governor Balderston stated that closing in the wings would provide about 70 new units of space less some units which would be destroyed because they would be shut off from outside light or needed to provide hallways. In connection with any new construction, Governor Balderston pointed out that the recently announced plans of the Department of State to go ahead with major construction in the area bounded by Virginia Avenue, 21st, 22nd, and C Streets might present a problem of timing; too much concentration of new construction in a single area might make normal office operations exceedingly difficult.

The Chairman indicated that in his opinion some of the questions involved relatively narrow areas of judgment. He felt that the matter should be placed in Governor Balderston's hands.

At the conclusion of the discussion, it was unanimously agreed to turn the matter over to Governor Balderston with power to act on negotiations for the leasing of outside space should it be determined that this was desirable.

At the request of the Chairman, Mr. Johnson then reviewed a report on the budget performance of the various offices and divisions of the Board for the year 1955. This report, dated February 15, 1956, had been distributed prior to the meeting. It was pointed out that while the Board's expenses for 1955, totaling \$4,500,963, were 3 per cent more than had been budgeted the excess was entirely attributable to the general pay

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increase approved by the Board on June 30, 1955, retroactive to March 13. This was not covered by the original budget and except for this the expenditures of the Board would have been within budget estimates.

Removing the amounts attributable to the general pay increase, all divisions except the Office of the Secretary, the Office of the Controller, and the Division of Administrative Services were within their budgets. The overexpenditures of the Offices of the Secretary and the Controller arose from the creation of new positions not included in the budget. The overexpenditure by the Division of Administrative Services was due to a third printing of the System Booklet required by the heavy demand for this publication. No amount had been included in the budget of this Division for this item. In addition there was an expenditure for Emergency Relocation amounting to \$5,468 for which no provision had been made in the budget. The budget for Employee Retirement and Insurance Benefits was exceeded because of a special payment to the Retirement System to provide supplemental benefits to retired employees.

In response to a question Mr. Johnson stated there were only two approved positions that had never been filled; one was in Research and Statistics and one in Bank Operations where specialized qualifications had made it difficult to find appropriate applicants.

Following this discussion, Messrs. Bethea, Johnson, and Daniels withdrew from the meeting.

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The Board then turned to a discussion of memoranda prepared by Mr. Thomas and Mr. Vest concerning questions raised by Dr. Walter E. Spahr regarding the treatment of float in the collection of checks by the Federal Reserve Banks. These memoranda, dated February 13 and 16, 1956, had been prepared pursuant to a request made at the Board's meeting on February 2, 1956. They were intended only to provide background regarding the history of Dr. Spahr's concern with this question and did not contemplate any action.

It was pointed out by Mr. Vest that as a purely legal matter the exercise of the System's collection and regulatory powers which have been carried out since 1939 with full knowledge of Congress does not contravene the reserve provisions of the law, but that in some respects the treatment of float is doubtful.

Governor Vardaman stated that this had been clear to the Board from the beginning and that it had proceeded in its present practices with full knowledge.

The meeting then recessed briefly and reconvened at 11:00 a.m. with the following representatives of the New York Stock Exchange in attendance:

G. Keith Funston, President  
Edward C. Gray, Executive Vice  
President  
Jonathan A. Brown, Director, Re-  
search and Statistics

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James C. Kellogg, 3rd., Vice Chairman,  
Board of Governors  
John R. Haire, Secretary

Attendance on the part of the Board and its staff was the same as before the recess except that Messrs. Leonard and Hackley were not present, while Messrs. Solomon and Shay, Assistant General Counsel, Koch, Assistant Director of the Division of Research and Statistics, and Brill, Chief of the Business Finance and Capital Markets Section in the Division of Research and Statistics, joined the meeting.

The representatives of the Stock Exchange presented to the Board current information about the status of the stock market particularly in regard to the use of credit as a factor in market operations. They explained to the Board a new program for sample surveys of brokers' customers which they believed would provide a substantial amount of additional information about stock market activity.

There followed a general discussion in which the members of the Board and staff joined concerning operations of Regulations T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, and of technical adjustments to those regulations which the representatives of the Stock Exchange felt the Board should consider.

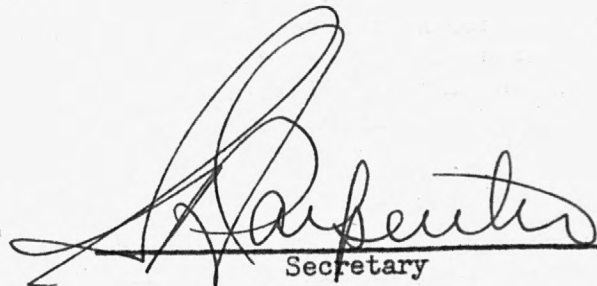
During the foregoing discussion Chairman Martin and Governor Robertson withdrew from the meeting to keep another appointment.

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At the conclusion of the discussion Vice Chairman Balderston expressed the appreciation of the Board for the presentation by the representatives of the Stock Exchange, and on behalf of the Board invited the representatives to remain for lunch.

The meeting then adjourned.

  
Secretary