Minutes for May 14, 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	
Gov. Szymczak	x	
Gov. Vardaman	x	
Gov. Mills	x	
Gov. Robertson	x	
Gov. Balderston	x	
Gov. Shepardson	x	

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, May 14, 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. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Sloan, Director, Division of Examinations
Mr. Boothe, Administrator, Office of Defense Loans
Mr. Noyes, Adviser, Division of Research and Statistics
Mr. Masters, Assistant Director, Division of Examinations
Mr. Cherry, Legislative Counsel

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 the Board of Directors, Chemical Corn Exchange Bank, New York, New York, reading as follows:

> Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment by the Chemical Corn Exchange Bank, New York, New York, of a branch at 770 Broadway, New York,

New York, on the upper floors of the Wanamaker Building, for the limited purposes stated in Treasurer Herbert W. Nannen's letter dated April 20, 1956, addressed to Mr. Fred W. Piderit, Manager, Bank Examination Division, Federal Reserve Bank of New York, provided the branch is established within six months from the date of this letter.

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

Letter for the signature of Chairman Martin to The Honorable James O. Eastland, Chairman, Committee on the Judiciary, United States Senate, reading as follows:

Reference is made to your letter of April 25, 1956 enclosing a copy of S. 2223, on which you request our report. The purposes of the bill are to abbreviate the record on review by the courts of orders of administrative agencies, and to make more uniform the various laws relating to judicial review of such orders.

The Board of Governors is in sympathy with the objectives of the bill. Its experience in such matters is limited, and it has not experienced any difficulty with the provisions now in effect. However, it would defer to the judgment of those agencies which have had more experience with these provisions.

Of course the Board has no comment with respect to the numerous provisions in the bill relating to orders of other agencies of the Government, except the general comment approving the objectives of the legislation.

Approved unanimously, together with the following letter to Mr. Percival F. Brundage, Director, Bureau of the Budget:

There is enclosed a copy of a letter which Chairman Martin of the Board of Governors has addressed to the Chairman of the Committee on the Judiciary of the Senate in response to a request for a report on the bill S. 2223, to authorize the abbreviation of the record on review by the

courts of orders of administrative agencies, and to make more uniform the various laws relating to judicial review of such orders.

Because a prompt report was requested by the Committee, time did not permit the Board to ascertain in advance whether in the opinion of the Bureau of the Budget this legislation is in conformity with the program of the President.

Letter to Mr. Grant L. Robison, Chairman, Executive Committee, National Association of Supervisors of State Banks, Carson City, Nevada, reading as follows:

This is in response to your letter of April 16, 1956, to Chairman Martin, regarding the bank merger problem and pending legislation on this subject and, in this connection, requesting information as to the policies which guide the Federal bank supervisory agencies in considering merger proposals under provisions of present law.

As you know, the Board's existing statutory authority to approve bank mergers is limited to those cases in which the resulting bank will be a State member bank and will have capital stock or surplus less than the aggregate capital stock or surplus, respectively, of the merging institutions. In acting upon applications for such approval, all of the pertinent facts and circumstances of each case are considered by the Board from the point of view of their effect upon the banking system and the public interest generally. Thus, the Board takes into account capital structure, competency of management, future earnings prospects, the needs of the community, and the possible effect of the transaction as lessening competition or tending toward a monopoly.

In response to your inquiry as to the reasons which have motivated mergers that have been submitted to the Board for its approval over the past five or ten years, it seems probable that among the most frequent reasons have been the desire of large city banks for outlets in suburban areas and the desire to strengthen bank management, and that in some instances the favorable price at which the smaller banks may be purchased has also been a motivating factor.

As to the circumstances which would warrant disapproval because of concentration, the Board believes that no hard and fast rule can or should be adopted and that of necessity the matter must be handled on a case-by-case basis. Consideration must be given to the competitive aspects of each transaction, as reflected by concentration of offices and deposits in the particular area, the extent of existing competition in the area, and other relevant circumstances. At the same time, the Board feels that in each case the competitive factors must be carefully weighed against the banking factors previously mentioned, since there have been in the past and may well be in the future instances in which the over-all public interest would clearly be served by a merger which might incidentally tend to lessen competition.

The more detailed views of the Board on this subject were stated at Congressional hearings last year, as were the views of your Association and the other Federal bank supervisory agencies. We share your thought that it would be desirable for the various banking agencies to reach a common ground with respect to matters of this kind, and the Board would be glad to exchange views with your Association at any time.

Approved unanimously.

There were presented telegrams proposed to be sent 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	May 7
St. Louis	May 7 and 10
San Francisco	May 9
New York	May 10
Philadelphia	May 10
Cleveland	May 10
Richmond	May 10
Atlanta	May 10

Minneapolis	May 10
Dallas	May 10
Kansas City	May 11

Approved unanimously.

Reference was made to the discussion at the meeting on May 10, 1956, regarding the reply to be made to an inquiry from an attorney in New York City regarding the relationship between the Board's Regulation F, Trust Powers of National Banks, and the Statement of Principles of Trust Institutions adopted by the American Bankers Association in 1933 which is included as an appendix to the Regulation. The matter had been carried over because Governor Vardaman, who was absent on May 10, had attached to the file when it was in circulation a note stating that he would like to discuss the matter at a meeting of the Board.

Governor Vardaman stated that his question concerned the circumstances under which the Statement of Principles was included as an appendix to Regulation F and the possibility of eliminating it. He went on to give reasons why it seemed to him inappropriate to use in this manner a document prepared by a private association.

In response to a question from Governor Vardaman, Mr. Vest said it appeared that there would have to be an amendment of Regulation F to eliminate the Statement of Principles because a footnote to section 6 of the Regulation indicates that the Statement of Principles is included as an appendix and states that it is commended to banks operating trust

departments. In this connection, he suggested the possibility that certain implications would be drawn from a decision by the Board at this time to eliminate the Statement of Principles. He added that inclusion of the Statement had not heretofore caused any difficulty or raised any question so far as he could recall.

In response to another question from Governor Vardaman, Mr. Masters said that other amendments to Regulation F were in prospect, but that he did not know just when these amendments would be ready for consideration by the Board.

Governor Vardaman stated that the adoption of other amendments to the Regulation might present an appropriate occasion for the Board to consider omitting the Statement of Principles.

Governor Mills said that while the position stated by Governor Vardaman would appear to be correct as a matter of general principle, he felt that in the area of trust administration the cooperation of the Board with the American Bankers Association over the years had served the interests of banks operating trust departments. After commenting on the quality of the Statement of Principles, he went on to say that if the Board could promote those standards without violating some important principle, he would favor such a procedure. It was therefore his feeling that in this instance there was something to be said for modifying any general position against making use of documents promulgated by trade associations in connection with Board regulations.

In a further discussion, consideration was given to whether it would be necessary to amend Regulation F should the American Bankers Association amend its Statement of Principles in the light of certain language therein which appeared to have raised a question of an anti-trust nature. The view was stated that immediate amendment of Regulation F probably would not be essential because the Regulation itself merely commended the Statement of Principles.

Governor Robertson said that he saw a great deal of merit in the position taken by Governor Vardaman that the Board should not follow the practice of incorporating in a regulation language which related directly to a statement prepared by the American Bankers Association or any similar organization. He thought that when there was some occasion to amend Regulation F for another reason, the Board might well consider dropping the Statement of Principles from the appendix. For the time being, he saw no reason why it was necessary for the Board to take any action.

At the conclusion of the discussion, it was agreed unanimously that the Board should take no action at this time to amend Regulation F, and unanimous approval was given to the following letter to Malcolm I. Ruddock, Esq., Cadwalader, Wickersham & Taft, 14 Wall Street, New York, New York:

This is in response to your letter of April 27, addressed to the Board's General Counsel, inquiring as to the relationship

between Federal Reserve Regulation F ("Trust Powers of National Banks") and the "Statement of Principles of Trust Institutions" which was adopted by the American Bankers Association in 1933. You refer particularly to the following sentence from Article V of the Statement of Principles:

> "Minimum fees in any community for trust services should be uniform and applied uniformly and impartially to all customers alike."

Section 6 of Regulation F, relating to Trust Department Management, provides that "Every such national bank shall conform to sound principles in the operation of its trust department", and a footnote to this provision reads as follows:

> "The Statement of Principles of Trust Institutions approved by the Executive Council of the American Bankers Association under date of April 11, 1933, is included in the Appendix to this regulation and is commended to banks operating trust departments."

Although the Statement of Principles is thus "commended to banks operating trust departments", it does not constitute a part of the Board's regulation. In bringing the Statement to the attention of banks, the Board of Governors certainly did not intend to suggest any course of action that would be inconsistent with the antitrust laws.

Mr. Hexter then withdrew from the meeting and Mr. Johnson, Controller, and Director, Division of Personnel Administration, entered the room.

There was a further discussion of a possible increase in the maximum permissible rate of interest on loans made pursuant to Regulation V, Loan Guarantees for Defense Production, in the light of views stated

by the Conference of Presidents of the Federal Reserve Banks at the joint meeting of the Board and the Presidents on May 9, 1956. At that meeting, there was reported to be general agreement on the part of the Presidents that the current maximum interest rate and schedule of guarantee and commitment fees were not a deterrent to the extension of V-loan credit at this time. However, it was the view of the Presidents' Conference that in light of the prevailing higher market rate structure, servicing banks were entitled to a greater return on their loans, either through a higher maximum interest rate or a reduction in the fees.

After a discussion of the Presidents' statement, Mr. Boothe reported having received advice from the Federal Reserve Bank of Cleveland that a bank in that city which had a V-loan outstanding that apparently was posing no unusual servicing problems had inquired whether the guaranteeing agency would take over the loan temporarily, with an understanding that the loan later might be repurchased by the commercial bank. It appeared that the bank made this inquiry because of other urgent uses for its funds at the present time. Mr. Boothe said that the guaranteeing agency (the Department of the Navy) subsequently advised that it would be willing to take over the loan, but without any promise to resell it to the bank concerned. He also reported telephone conversations with operating officers of several Federal Reserve Banks who, he

said, expressed the opinion that commercial banks would take more interest in making V-loans if they could get a more reasonable rate of interest on them.

In response to a question from Governor Robertson as to whether the Defense Department needed an increase in the maximum rate in order to obtain goods and services, Mr. Boothe said he understood it was the feeling of the Defense Department that in the absence of a higher rate the trend would be more and more toward financing through progress and partial payments instead of guaranteed loans.

In this connection, reference was made to the memoranda obtained by Mr. Boothe from the guaranteeing agencies which indicated that the agencies either favored or would have no objection to an increase in the maximum permissible rate of interest. It was stated, however, that the memoranda from the various agencies did not set forth the underlying reasons for their respective positions.

Chairman Martin said that he doubted whether it was possible for the Board to get a great deal of evidence to support an increase in the maximum rate except that there had been a sufficient change in the interest rate structure to suggest such an increase. He also said that on the basis of increases in other rates the simple logic of the matter would be to raise the maximum interest rate on V-loans. He was not certain how one could tell whether the maximum rate should be 5-1/2 per

cent, 6 per cent, or some other figure, but he felt that some increase was indicated. He then inquired who had recommended that the maximum rate be fixed at 6 per cent.

Mr. Boothe replied that this was the rate which the guaranteeing agencies had discussed and which they seemed to have more or less agreed upon.

Governor Vardaman then made a statement in which he suggested that if the matter were kept in the proper perspective, it should be clear that the V-loan facility might become unusable and impracticable in the face of the present interest rate structure unless there was some adjustment of the maximum rate. He felt that the Board's consideration of the matter should be in terms of keeping the maximum permissible rate in proper relationship to the rates obtainable from other types of loans and investments. It appeared, he said, to be the consensus of the guaranteeing agencies that the facility was not completely usable because of the inadequacy of the present maximum rate.

Governor Balderston suggested that a factual basis for an increase was indicated by the recent business loan survey, which reflected a rise of about one per cent in the average yield on commercial bank loans since the previous survey in 1946.

Governor Mills commented that it must be borne in mind that V-loans outstanding totaled only about 350, a negligible figure when

compared with the defense procurement program as a whole. In addition, the Board had been advised by the Reserve Bank Presidents that the present maximum rate and schedule of fees were not, so far as they knew, proving to be a deterrent to the making of guaranteed loans. With those two facts in mind, he felt that the Board should consider all of the ramifications of a change in the maximum rate to 6 per cent in a period like the present when there was much general discussion regarding the entire problem of interest rates. He also pointed out that in the field of guaranteed loans the Board operates under delegated power from the President. For this reason he felt that the Board should clear with the executive branch of the Government the advisability of a change in the maximum V-loan rate. Such clearance, he said, might also involve obtaining views on whether any change should be made in the schedule of guarantee fees, which would increase the yield of banks participating in the V-loan program. He concluded by saying that in the absence of more information than was now available, he would have to vote against an increase in the maximum rate.

In a discussion of the points raised by Governor Mills, Chairman Martin said that he saw no objection to obtaining the comments of the Treasury, and he suggested that Mr. Boothe prepare an appropriate memorandum which could be submitted to that Department. However, other members of the Board expressed the view that the submission of a memorandum

might be regarded as a precedent which the Board would not wish to follow in the future. For this reason, they felt there would be some advantage in an informal clearance.

Governor Robertson then suggested that the staff prepare, as a basis for further consideration of the matter by the Board, a memorandum of reasons which would justify a decision to increase the maximum rate, including all of the points which had been mentioned in Mr. Boothe's previous memoranda and in the discussions of the Board.

There was unanimous agreement with this suggestion.

Mr. Boothe then withdrew from the meeting and Mr. Leonard, Director, Division of Bank Operations, entered the room.

Reference was made to the discussion at the meeting of the Board with the Presidents of the Federal Reserve Banks on May 9, 1956, concerning approval by the Presidents' Conference of a suggestion that steps be undertaken to institute a pilot operation in the First Federal Reserve District to implement the report of the Joint Committee on the Check Collection System. The approval contemplated that the actions to put the pilot operation into effect would be initiated by the reserve city bankers of the area in consultation with the American Bankers Association and the Federal Reserve Bank of Boston. In view of questions which were raised at the joint meeting concerning the advisability of the suggested

procedure, it was stated at that time that the Board would consider the matter further and advise the Presidents of its views.

Governor Mills said that to his knowledge there were at least two Reserve Bank Presidents who would be concerned about any action taken by the Boston Reserve Bank on its own account to implement the recommendations of the Joint Committee. In view of the very active and vocal opposition to the report in some banking circles, he felt that there was a serious risk of impairing the good standing of the Federal Reserve System with member banks through any action that could be interpreted as a forcing of the issue by the System. He understood that President Erickson had in mind calling to the attention of an officer of a Boston bank the fact that the Reserve Bank would not be averse to any steps that might be undertaken within commercial banking circles in that District to put into effect the recommendations of the Joint Committee, with particular emphasis on the direct sending of items to the Federal Reserve Banks. It was his opinion that any action of that sort could be highly inflammatory and that it was unnecessary. If individual banks approached a Federal Reserve Bank and indicated that they would like to adopt the direct sending procedure or other procedures recommended by the Joint Committee, he felt that they should receive the full cooperation of the Reserve Bank. However, he questioned whether, in view

of the risk of undermining good relationships between the System and member banks, a Reserve Bank should take action which would amount to encouraging practices that were frowned upon in certain banking quarters.

Chairman Martin inquired of Governor Mills how much importance he would attach to the point made by President Sproul at the joint meeting on May 9 regarding the responsibility of the Federal Reserve System to encourage the implementation of the recommended procedures in the public interest.

Governor Mills responded that there could be two points of view, one of which would be that the Reserve Banks should look beyond the member banks' attitude toward the check collection report to whatever they might consider to be their responsibility in the public interest. On the other hand, he said, the desired objectives perhaps could be achieved, without running the risk of arousing further criticism, through gradual adoption of the recommended procedures as the result of requests from member banks. It was his personal view that the Reserve Banks would not be warranted in taking any actions which might be construed as an attempt to force the instituting of these procedures.

In reply to a comment by Governor Shepardson that he did not understand that the action contemplated in the Boston District would constitute in any sense a compulsory move, Governor Mills agreed that banks would not be put under pressure to participate in the pilot operation. However, in the face of opposition to the Joint Committee report

expressed by an important group of bankers, the Boston Bank would use a member bank, or a group of banks, as a vehicle for adopting the recommended procedures with the encouragement and blessing of the Reserve Bank. It seemed to him that from the public relations standpoint the System would be better off if the initiative could come from the banks themselves rather than through any action which might leave an impression that the Reserve Banks were forcing the hand of member banks.

Governor Shepardson said it was his understanding that there was general approval of the report in the Boston District, that President Erickson intended to take up the matter with only one banker, and that if the bankers in the District then wanted to go ahead, Mr. Erickson would indicate that the Federal Reserve Bank would cooperate. He also referred to the statement by President Johns at the joint meeting on May 9 to the effect that bankers in the Eighth District were not likely to go along with the procedures recommended by the Joint Committee, and he suggested if the bankers in the Boston District were to proceed with the program, it might have a salutary psychological effect. He recognized that if the Boston Bank attempted to force the matter, that might have undesirable repercussions. However, as he understood Mr. Erickson's plan, the Reserve Bank would merely let it be known that if the member banks wanted to go forward, the Boston Bank would cooperate.

Governor Szymczak expressed the opinion that the idea of a pilot operation should be approved in the absence of opposition on the part of

bankers in the Boston District. He said that somebody would have to put the pilot operation in motion and that he knew of no one better qualified than Mr. Erickson to take the first step because of his personality, background, and experience.

Following a statement by Chairman Martin that it might be well to caution President Erickson, in line with Governor Mills' point of view, that the action should be on a purely voluntary basis, Governor Robertson suggested that the Board might indicate not only to Mr. Erickson but to all of the Presidents that if the bankers in any district wished to take the initiative to put this sort of operation into process, the Board would have no objection to cooperation on the part of the Reserve Banks. This, he said, would leave the respective Banks free to go ahead with pilot operations but would caution them against taking the initiative.

Governor Vardaman stated that the problem was a complex one in view of the relationship of the Joint Committee's recommendations to correspondent banking. He felt that there was no reason to block the experiment in the Boston District. However, he said, it seemed that the pilot operation was almost certain to be successful and this would raise a question at some point as to whether the System was obligated to encourage adoption of the recommended procedures in other Reserve districts.

Governor Balderston said that in view of his understanding of the way in which President Erickson would approach the matter and in view of the fact that opposition to the Joint Committee report within the Association of Reserve City Bankers apparently was not uniform, he thought that the Board should interpose no objection to Mr. Erickson's plan. If it developed that the bankers in the Boston area were in agreement, the approach by Mr. Erickson might serve a useful purpose. If it developed that they were not in agreement, the System should let more time pass before considering any further action.

The suggestion then was made that the Board's views on the matter be conveyed to President Erickson informally. In this connection, Chairman Martin said that he would be glad to call Mr. Erickson on the telephone, if the Board desired, and advise him of the substance of the discussion at this meeting.

The suggestion also was made that a letter be sent to the Chairman of the Presidents' Conference stating the Board's views on the matter.

At the conclusion of the discussion, it was agreed unanimously that a letter in the following form would be sent to President Leedy as Chairman of the Presidents' Conference:

In the memorandum of topics submitted by the Presidents' Conference for consideration at the joint meeting of the Board of Governors and the Presidents on May 9, 1956, the statement was made that the Presidents' Conference approved a suggestion that steps to implement the report of the Joint Committee on Check Collection System be undertaken

as a pilot operation in the Boston District. At the end of the discussion of this subject at the joint meeting, it was agreed that the Board would consider the matter and advise the Presidents' Conference of its views.

It is the Board's understanding that the implementing actions to put the pilot operation into effect will be initiated and carried forward by bankers in the First Federal Reserve District in consultation with the American Bankers Association and the Federal Reserve Bank of Boston. In the circumstances, the Board has no objection to the proposal.

During the foregoing discussion, Messrs. Hostrup, Assistant Director, and Thompson, Supervisory Review Examiner, Division of Examinations, and Massey, Technical Assistant, Division of Bank Operations, entered the room.

There had been sent to the members of the Board copies of a memorandum from Mr. Hackley dated May 8, 1956, submitting and commenting upon a draft of a proposed regulation, tentatively designated "Regulation Y", which might be issued by the Board pursuant to the Bank Holding Company Act of 1956. It was recommended that the draft be sent to the Federal Reserve Banks with a request for their comments within one week from the date of the Board's letter. It was contemplated that the regulation then would be published in the Federal Register, with a period of 30 days allowed for the submission of comments and suggestions.

Mr. Hackley commented that the draft of regulation followed the minimum control approach, that the greater part of the draft simply tracked the language of the Bank Holding Company Act, and that care had

been exercised in drafting the regulation not to deviate from the language of the law any more than necessary. He said that an effort had been made to include in the regulation only such material as was considered essential.

Mr. Vest said that since the draft of regulation was distributed to the members of the Board, the Legal Division had given further consideration to the question of hearings and procedures under the new legislation and now wished to recommend that the draft of regulation be amended to incorporate certain additional material. He then read the additional paragraphs which were proposed. Mr. Hackley added that certain minor changes in language also had been suggested since the draft regulation was distributed.

Governor Robertson said that while it seemed advisable to expedite issuance of the regulation, he hesitated to limit the Federal Reserve Banks to one week within which to submit their comments. He suggested, therefore, that the letter to the Reserve Banks ask for their preliminary comments within one week, with the understanding that additional comments might be submitted following publication of the proposed regulation in the Federal Register.

It was also suggested that copies of Mr. Hackley's memorandum of May 8 be sent to the Reserve Banks for their information.

Thereupon, unanimous approval was given to a letter to the Presidents of all Federal Reserve Banks in the following form:

There is enclosed a draft of a proposed regulation, tentatively designated "Regulation Y," which the Board is considering for issuance pursuant to the Bank Holding Company Act of 1956.

It will be appreciated if you will wire any preliminary comments which your Bank may wish to offer so that they will be received not later than one week following the date of this letter. The proposed regulation will then be published in the Federal Register with an invitation for comments and suggestions to be submitted within 30 days after the date of such publication. Additional comments may, of course, be submitted by your Bank during the period following publication of the proposed regulation in the Federal Register.

For your information, there is enclosed an explanatory memorandum regarding the proposed regulation.

Messrs. Hostrup and Thompson then withdrew from the meeting.

There had been sent to the members of the Board copies of a memorandum dated May 1, 1956, from Mr. Farrell, Assistant Director, Division of Bank Operations, concerning the 1955 budget experience reports of the Federal Reserve Banks. The memorandum summarized highlights of the 1955 budget performance, including comparisons of 1955 expenses with those incurred in 1954. Submitted with the memorandum was a volume containing a detailed analysis of the 1955 budget experience.

After reviewing the principal points developed in the analysis, Mr. Leonard went on to say that the budget presentations of the Federal Reserve Banks for 1956 were better than those for the preceding year, the budget experience reports for 1955 were somewhat better than those

for 1954, and the margin between actual experience and budget estimates was gradually diminishing.

In response to an inquiry by Governor Balderston as to whether there was any evidence as yet from operations in 1956 that the budget "cushions" were less than usual, Mr. Leonard said that an answer on this point would not be available until the expense reports for the first quarter of 1956 were received from the Federal Reserve Banks.

Governor Mills referred to a recent report by the Federal Deposit Insurance Corporation on earnings of commercial banks for 1955 which showed, among other things, that expenses during 1955 were about 5 per cent greater than during 1954. He asked whether any comparisons could be drawn between this experience and the expenses of the Federal Reserve Banks.

Mr. Leonard said that although he had not yet made a comparative analysis, the principal increase in 1955 Reserve Bank expenses was attributable to a rise in salary rates, which were about 4 per cent higher on the average than in 1954, and that this seemed generally consistent with the report on commercial bank earnings.

Governor Vardaman said that in his opinion the Reserve Bank budget function was reaching a fine point and that he felt the Division of Bank Operations should be complimented. He went on to suggest that in comparing actual expenditures with budget estimates care should be

taken not to regard as savings underexpenditures resulting from failure to fill budgeted positions.

Mr. Leonard said that from the analysis made by the Division of Bank Operations, inability to fill budgeted positions represented only a minor part of the budget underexpenditures, the major part being due to changes in work volume and procedures and to greater operating efficiency. He also said that in the future the Division would present its budget experience analysis in such a way as to show more clearly underexpenditures due to unfilled positions.

Messrs. Leonard, Sloan, Johnson, and Massey then withdrew from the meeting.

Mr. Vest reported that he had talked with counsel for the Federal Trade Commission and the Securities and Exchange Commission with a view to obtaining suggestions on attorneys who might be considered for retention by the Board in the matter of The Continental Bank and Trust Company, Salt Lake City, Utah. However, he did not go further along these lines because two Washington attorneys were recommended who appeared to be suitable for employment in this capacity. Both of these men had visited the Board's offices for discussions with him, and later with Governors Balderston and Mills. He then stated the names of these attorneys and summarized the types of cases which they had handled.

Mr. Vest went on to discuss a complicating factor--the fact that section 281 of the United States Criminal Code provides in effect that any officer or employee of the United States is guilty of a crime if he receives any compensation in connection with any proceeding, claim, or controversy against the Government. The question, therefore, was whether any person employed by the Board as counsel in a particular proceeding would be an employee of the United States. Personally, he did not think so, but there might be some doubt about it. He said that he had discussed the matter with Assistant Attorney General Warren Olney, who said that the provision in question had caused trouble for the Department of Justice in certain cases where the Department wished to retain outside counsel, and that the Department could not find an answer. Mr. Vest went on to say that Mr. Olney expressed a desire to be helpful and indicated that, although he could not give a formal opinion, he would give such views as possible if the Board wished to submit an informal memorandum.

Mr. Vest said that one of the two attorneys that he had mentioned would not undertake to work for the Board as special counsel in the absence of clearance with the Department of Justice. The second attorney, however, said that he had talked with the partners in his firm and that they would not consider such clearance necessary.

Mr. Vest then presented several possible alternatives, as follows: The Board might retain the attorney who had indicated that he felt clearance with the Department of Justice was not essential. It could submit a memorandum to the Attorney General. It could attempt to locate an attorney in San Francisco or Salt Lake City whose firm might not be handling any claims against the Government. It could reconsider the use of counsel for the Federal Reserve Bank of San Francisco. Or it could perhaps borrow an attorney from a Government agency.

Following statements by Governors Balderston and Mills to the effect that they were favorably impressed by both of the attorneys who visited the Board's offices, the discussion reverted to the alternatives available in the light of the comments made by Mr. Vest. In response to a question from Chairman Martin regarding the risk involved in employing outside counsel in this matter in view of the pertinent provision of the Criminal Code, Mr. Vest stated that in his opinion the risk would be very small and that, in any event, the Board's case against The Continental Bank and Trust Company would not be affected, even if a proceeding under the Criminal Code was brought against the party serving as counsel for the Board.

In the circumstances, the suggestion was made that steps be taken looking toward the retention of the attorney (Mr. Bolling R. Powell, Jr.) who had indicated that he would be willing to serve as special

counsel without further clearance by the Board with the Department of Justice.

Mr. Vest then stated the tentative schedule of fees which Mr. Powell had mentioned, following which there was a discussion of whether the contract should be with Mr. Powell personally or with the firm in which he is a partner.

At the conclusion of the discussion, Governors Balderston and Mills were authorized to proceed with steps looking toward the retention of Mr. Powell as special counsel.

Mr. Young reported that the Board's staff had received an advance copy of a report prepared by McGraw-Hill and Company for public release on Friday, May 18, reflecting the results of a survey of contemplated business plant and equipment expenditures which was made in April and the early part of May. The survey indicated that plant and equipment expenditures this year might run at a rate 30 per cent higher than 1955. According to the survey, total expenditures for 1956 might be in the neighborhood of $39 billion, as compared with an estimated figure of $36 billion based on a survey earlier this year by the Department of Commerce and the Securities and Exchange Commission.

The members of the staff then withdrew from the meeting and the Board went into executive session.

At the meeting on March 26, 1956, the Board authorized expenditures of

up to $7,000 by the Division of Administrative Services for (1) furniture for seven office units provided as the result of shifts in quarters within the building, and (2) the services of Mr. Persina, Consulting Architect to the Board, to review previously prepared plans for the provision of additional space and to study certain other building matters. Following the executive session, the Secretary was informed by the Vice Chairman that in view of developments the Board had approved an increase in the authorization from $7,000 to $13,500 with the understanding that if the cost of the services rendered by Mr. Persina should exceed $1,500, the additional amount could be paid out of any unexpended funds remaining in the enlarged authorization.

The meeting then adjourned.

Secretary's Note: Governor Balderston today approved the following items on behalf of the Board:

Memorandum dated May 9, 1956, from Mr. Johnson, Director, Division of Personnel Administration, recommending the appointment of Peggy Ann Long as Clerk-Stenographer in that Division, with basic salary at the rate of $3,670 per annum, effective the date she assumes her duties.

Memorandum dated May 2, 1956, from Mr. Young, Director, Division of Research and Statistics, recommending that Kathryn E. Ridgway, Clerk in the Division of Bank Operations, be transferred to the position of Clerk in the Division of Research and Statistics, with no change in her basic salary at the rate of $3,670 per annum, effective the date she assumes her new duties.

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

In accordance with the request contained in your letter of May 7, 1956, the Board approves the appointment of Raymond E. Talbot as an assistant examiner for the Federal Reserve Bank of San Francisco. Please advise as to the date upon which the appointment is made effective.

Secretary