

Minutes for November 7, 1956.

To: Members of the Board

From: Office of the Secretary

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

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

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

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, November 7, 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. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Sloan, Director, Division of Examinations
Mr. Marget, Director, Division of International Finance
Mr. Johnson, Controller, and Director, Division of Personnel Administration
Mr. Solomon, Assistant General Counsel
Mr. Hackley, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Cherry, Legislative Counsel
Mr. Furth, Chief, Financial Operations and Policy Section, Division of International Finance

Reference was made to a memorandum from the Division of Examinations dated October 2, 1956, which had been circulated to the members of the Board, relating to proposed mergers of The Farmers National Bank of Bucks County, Bristol, Pennsylvania, and Roosevelt Bank, Philadelphia, Pennsylvania, into Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania. The Board's consent to the mergers was required under the provisions of section 18(c) of the Federal Deposit Insurance Act, and its

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permission also was needed for the establishment of eight branches in the quarters now occupied by the first two banks and their branches as well as for an additional investment in bank premises by Fidelity-Philadelphia Trust Company. The Federal Reserve Bank of Philadelphia and the Board's Division of Examinations recommended favorable action.

In a telegram dated November 2, 1956, the Philadelphia Reserve Bank reported that the State banking authorities had approved the proposed mergers subject to action by the Comptroller of the Currency with respect to a proposed merger of The Philadelphia National Bank, of Philadelphia, with Delaware Valley Bank and Trust Company, of Bristol, Pennsylvania. These cases both involved the establishment of branches across county lines and it was understood that there had been some reluctance on the part of the State authorities to approve transactions which would have such a result.

In reviewing the matter, Mr. Sloan said it was understood that the Comptroller of the Currency probably would give his consent in the Philadelphia National Bank case sometime this week, that the required papers had been filed with the State authorities by the Fidelity-Philadelphia Trust Company, that the State Secretary of Banking had made a statement to the effect that he would approve the papers and permit the establishment of the requested branches, but that apparently these papers would not be released until the Comptroller of the Currency had acted. He also stated that the parties concerned in the Fidelity-Philadelphia case hoped to effect the mergers over the coming weekend, and it was therefore a question of whether the Board would wish to give its approval subject to formal

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action by the State authorities, which in turn was contingent upon action by the Comptroller of the Currency with respect to the other proposed merger.

Governor Robertson stated that in the circumstances he would be reluctant to have the Board take action until the situation had been clarified by action of the Comptroller of the Currency and the approval of the State authorities in the Fidelity-Philadelphia case became unconditional.

Following further discussion during which it was pointed out that the Board could act promptly upon receipt of advice that the Comptroller of the Currency had acted on The Philadelphia National Bank merger and the approval of the State banking authorities in the Fidelity-Philadelphia case had become effective, agreement was expressed with Governor Robertson's suggestion that action by the Board be deferred pending further developments.

Pursuant to the understanding at the meeting on Monday, November 5, there had been sent to the members of the board copies of a memorandum from Mr. Solomon dated November 6, 1956, submitting drafts of proposed legislation which would incorporate in the Federal Reserve Act present practices with respect to audits of the Board's accounts and submission of reports of examination of the Federal Reserve Banks to the Congressional Banking and Currency Committees. Two alternative drafts were submitted with respect to the submission of the reports of examination, the first of which would require the Board to arrange for a firm of public

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accountants to accompany the Board's examiners on one Federal Reserve Bank examination each year. This alternative draft would also specify that the same firm of public accountants should in no event make such a review for more than three years in succession. A similar provision was included in the draft of legislation relating to audits of the Board's accounts.

The suggestion at the meeting on November 5, pursuant to which the draft amendments were prepared, contemplated that if the question of audits of System accounts was raised during the course of Governor Robertson's testimony this Friday before the Senate Banking and Currency Committee in connection with the current study of Federal statutes governing financial institutions and credit, Governor Robertson might present the drafts of possible legislation to the Committee for its consideration.

In a discussion of whether any such draft legislation should specifically limit the number of times in succession that the same firm of public accountants could audit the Board's accounts or accompany the Board's examiners on a Federal Reserve Bank examination, Governor Mills suggested the omission of such a provision from the draft amendments, with the understanding that if Governor Robertson should be asked about the matter he could say that in the opinion of the Board such a statutory limitation would be in order if thought desirable by the Congress. Governor Mills also said that while commercial concerns often retain the same firm of public accountants year after year, there might be some reason for a Government instrumentality to follow a practice of rotation to insure against

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any criticism of its relationship with the accounting firm. On the other hand, he felt that the inclusion of a specific limitation in the legislative draft might be interpreted as a concession and that the point therefore could be handled more satisfactorily by oral statement.

The other members of the Board, including Governor Robertson, indicated that they concurred in Governor Mills' suggestion, particularly in view of the fact that in all other respects the drafts of legislation would envisage a continuation of the practices currently in effect. In this connection it was noted that the same public accounting firm had now accompanied the Board's examiners on Federal Reserve Bank examinations for four successive years. Some benefit was said to be derived from not changing the accounting firm too frequently, since familiarity with the examining procedures and Reserve Bank operations was conducive to a more informed review.

Governor Vardaman said that although he was willing to go along with the suggested procedure for submitting the drafts of legislation if the matter should come up, it continued to be his thought that it would be preferable for the appropriate committees of the Congress to employ accounting firms to audit the Board's accounts and to accompany the Board's field examining staff. He also said that while he favored a policy of rotation of public accounting firms, the language of the proposed drafts was perhaps too restrictive and any limitation might preferably be in terms of providing for a "reasonable degree of rotation". He saw no objection to omitting the provision entirely.

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With reference to Governor Vardaman's comment, Chairman Martin said that if the opportunity presented itself, Governor Robertson might say at the hearing that there would be no objection on the part of the Board if the Congress wished to designate the public accounting firms. However, he said, it must be recognized that such a statement might be countered by a statement on the part of the Committee that difficulty in the selection of a public accounting firm would suggest the use of the General Accounting Office.

In response, Governor Vardaman said that to him the principle was involved that the Board was responsible to the Congress rather than to the General Accounting Office, and that although mechanically the solution of using the General Accounting Office might be the easiest one, fundamentally and in principle such a procedure would be dangerous. He repeated that he did not see any harm in omitting from the drafts of legislation a specific provision for rotation of public accounting firms, with the understanding that Governor Robertson, if called upon to discuss the subject, could say that if the Congress wanted to include such a provision, the Board would not object.

In a further discussion of the matter, certain reasons were suggested by Governor Mills which would argue against using the medium of the current Robertson Committee study for submitting any legislative recommendation pertaining to audits of the Board or the Federal Reserve Banks. Basic to his reasoning was the thought that the subject was of a more fundamental nature than the topics which the Banking and Currency

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Committee had indicated would be appropriate for consideration during the current study.

A different point of view was suggested by Governor Balderston; that is, that the Board perhaps should take the initiative in presenting a legislative recommendation even if the subject of audits was not raised by the Committee.

With reference to the statements made by Governors Mills and Balderston, Governor Robertson said that according to advice which had been received he felt sure that the matter would come up at the hearings. If it did not, however, he would be willing either to raise the issue or to refrain from mentioning it, according to the Board's wishes.

Chairman Martin commented that while the Board wished to cooperate fully with the Robertson Committee, it should be kept in mind that this was not the only channel through which the Board could proceed in presenting suggestions for legislative changes. It was his view, all things considered, that the best procedure might be for Governor Robertson to have a specific legislative suggestion available if questions were raised at the hearing, but not to submit the draft legislation voluntarily.

After some discussion of the point, it was the consensus that the procedure proposed by Chairman Martin would be a satisfactory way to handle the matter.

Further discussion concerned the language of the draft legislation which might be presented by Governor Robertson and several suggestions for changes were proposed.

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Chairman Martin then suggested that the draft legislation be revised in a form satisfactory to Governor Robertson in the light of the comments made at this meeting.

There was agreement with this suggestion.

Secretary's Note: Pursuant to this agreement, the legislative drafts were revised to read as follows:

AUDITS OF FEDERAL RESERVE BOARD

Section 10 of the Federal Reserve Act is hereby amended by adding the following new paragraph immediately following the fourth paragraph of said section:

"The Board of Governors of the Federal Reserve System shall have its accounts audited at least once each year by a firm of certified public accountants. The reports of these audits shall be promptly transmitted to the Committees on Banking and Currency of the Senate and House of Representatives. In the event any such report shall contain any criticism, the Board shall make a full report thereon in writing to the said Banking and Currency Committees."

AUDITS OF FEDERAL RESERVE BANKS

The seventh paragraph of section 21 of the Federal Reserve Act is hereby amended by adding the following sentences at the end thereof:

"Copies of the report of each such examination of each Federal Reserve Bank, including each examination of the System open market account, shall be promptly transmitted to the Committees on Banking and Currency of the Senate and House of Representatives. The Board shall take suitable measures to assure that such examinations of the Federal Reserve Banks shall at all times

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meet the highest standards of commercial audits, in addition to meeting such other requirements as the Board may deem appropriate; and to that end the Board, among other things, may from time to time arrange for one or more firms of certified public accountants to observe and review the adequacy of procedures, techniques and practices followed in the examination of the Reserve Banks."

Governor Robertson then referred to the point brought out at the meeting on November 5, 1956, that the draft of statutory language to carry out the recommendation made by the Board to the Senate Banking and Currency Committee pertaining to the continuity of service of Federal Reserve Bank directors was not in exact conformity with the Board's current policy with respect to service of Class C directors. After reading a draft which would conform exactly to the current policy, he went on to say that the language previously submitted would permit the Board more flexibility, that continuity of service within the maximum limitation would be at the Board's discretion in any particular case, and that he therefore would be inclined to favor the draft of statutory language originally submitted.

Following a brief discussion, agreement was expressed with the view stated by Governor Robertson.

Governor Balderston referred to the Board's recommendation to the Banking and Currency Committee which would eliminate certain obsolete provisions from the first and second paragraphs of section 10 of the Federal Reserve Act, having to do with the service of members of the Board. He called attention particularly to the language of the present statute which states that the members of the Board shall receive actual necessary traveling expenses and inquired whether this language should be amended to clarify the fact that members of the Board may elect to receive

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a per diem in lieu of subsistence rather than actual necessary traveling expenses.

After a discussion during which the view was expressed that the language mentioned by Governor Balderston would not prevent the payment of a per diem at the option of a member of the Board traveling on official business, it was understood that the point would be checked further to assure this interpretation was permissible.

During the foregoing discussion Mr. Thomas, Economic Adviser to the Board, entered the room.

Reference was made to a letter addressed to Chairman Martin under date of November 5, 1956, by Mr. Fleming, President of the Federal Advisory Council, which stated that at a meeting on October 31, 1956, the Executive Committee of the Council reviewed the legislative recommendations which the Board submitted to Senator Robertson in connection with the current study by the Senate Banking and Currency Committee and that in addition all other members of the Council were given an opportunity to submit their comments. The letter contained the views of the Council on certain of the Board's recommendations and stated that with respect to the other recommendations the Council had no suggestions for changes or revisions.

After the Secretary, at the request of the Board, had read the essential portions of Mr. Fleming's letter, Chairman Martin suggested that a copy of the letter be transmitted to the Senate Banking and Currency Committee, provided the consent of Mr. Fleming was obtained.

There was unanimous agreement with this suggestion and it was understood that the Chairman

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would discuss the matter with
Mr. Fleming.

Question was raised whether the comments on the Board's recommendations which had been received from the Federal Reserve Banks should be sent to the Senate Committee and it was understood that if the Banking and Currency Committee made inquiry of Governor Robertson at the hearing on Friday, he would state that the Board would be glad to arrange to make the Reserve Bank comments available to the Committee.

Governor Balderston noted that in certain cases the Board had submitted alternative recommendations to the Robertson Committee. He inquired whether there was not something to be said for making firm recommendations since an indication that the Board was undecided might tend to induce unnecessary debate.

It was the consensus that inasmuch as the Board's alternative recommendations had already been submitted to the Banking and Currency Committee the most logical procedure would be to let the recommendations stand and to authorize Governor Robertson to use his best judgment in dealing with any questions which the Committee might raise at the hearing on Friday.

Messrs. Thurston, Thomas, Leonard, Hackley, Hostrup, and Cherry then withdrew from the meeting.

Prior to this meeting there had been distributed to the members of the Board copies of a telegram dated November 5, 1956, from Mr. Hayes, President of the Federal Reserve Bank of New York, reviewing at some length the considerations involved in the request of the Central Bank of Turkey for a \$25 million loan secured by gold. The telegram discussed

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previous use of the gold loan facility by Turkey, reasons for the current request, the possible consequences of a refusal to make the loan, and reasons why the officers of the Federal Reserve Bank of New York favored making an exception in this case to the agreed System policy relating to gold loans. The telegram also outlined a proposal favored by the New York Bank's officers under which the loan would be made for six months at a rate of interest one per cent higher than the Bank's discount rate.

Chairman Martin stated that pursuant to the understanding at the meeting on Monday, November 5, he had discussed the application at some length with Secretary of the Treasury Humphrey. He said that he had also discussed the matter briefly with Under Secretary of State Hoover and that although neither Mr. Humphrey nor Mr. Hoover had strong views regarding the loan they seemed to think that on balance it would be advisable to act favorably. In view of these expressions and the favorable view of the officers of the New York Reserve Bank, Chairman Martin expressed the opinion that the adverse considerations arising out of Turkey's financial instability seemed to assume less importance. He agreed with the soundness in theory of the point of view expressed by Mr. Marget that Turkey should sell its gold now rather than to borrow from the Federal Reserve, but in view of the situation in the Middle East and other factors he questioned whether the Federal Reserve should refuse the current request.

The other members of the Board expressed agreement that in the circumstances the loan should be granted, and the principal discussion related to the proposal to make the loan on a six-month rather than a three-month basis. In favor of making the loan on a six-month basis, it

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was stated that when a gold loan is made for three months there is often a rather implicit understanding that the loan will be renewed upon request. That might mean, in this case, that the Turkish authorities, if they obtained one renewal, would seek additional renewals. Moreover, the Central Bank of Turkey had indicated that if the loan was made for six months it would not ask for an extension and would take steps during the period of the loan to find some other solution to the problem. It was also stated that the current policy with respect to System gold loans was broad enough to permit the making of a loan on a six-month or other basis if the circumstances of a particular case were such that a deviation from the normal procedure seemed advisable.

At the conclusion of the discussion, it was agreed unanimously that if the Board should be advised that the directors of the New York Reserve Bank had authorized, subject to the approval of the Board of Governors, a loan on gold to the Central Bank of Turkey on the terms and conditions indicated in the telegram from Mr. Hayes, the Board would approve the loan. It was understood that Chairman Martin would advise President Hayes accordingly.

Messrs. Vest, Marget, Solomon, and Furth then withdrew from the meeting.

There had been sent to the members of the Board copies of a memorandum from the Division of Personnel Administration dated October 31, 1956, summarizing outside business and teaching activities reported by members of the Board's staff and recommending that the Board grant permission to continue or enter into the activities which were reported.

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Governor Vardaman stated that while he had no fundamental objection to the acceptance of outside positions by employees, he questioned the advisability of staff members holding "permanent" teaching positions. He said that he had intended to discuss the matter with Governor Shepardson but had been unable to do so.

Chairman Martin suggested that action on the memorandum from the Division of Personnel Administration be postponed and that the memorandum be referred to Governor Shepardson for recommendation at such time as he might wish to have it considered by the Board.

There was unanimous agreement with Chairman Martin's suggestion.

Consideration then was given to the selection of an accounting firm to audit the Board accounts for the year 1956.

At the request of the Board, Mr. Johnson made a statement in which he said that although Arthur Andersen & Co. had rendered outstanding service, he considered it advisable as a matter of policy to change the accounting firm periodically. He did not feel, however, that a change should be made too frequently, both because of the expense to the accounting firm and the fact that the services of the accounting firm tend to become more valuable after experience has been gained with the Board's accounting procedures. All things considered, he felt it might be appropriate to use the same accounting firm at least three years in succession.

In response to a question by Chairman Martin as to whether a

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change at this time would adversely affect Arthur Andersen & Co. in view of preparations that the firm might have made on the assumption that it would be employed to audit the Board's accounts for the year 1956, Mr. Johnson said that a change at this time probably would involve some inconvenience from the standpoint of scheduling of jobs and assignment of manpower. He went on to say that the firm had been awaiting word from the Board as to whether it would be retained to make the audit for 1956, and that it had certain plans in readiness.

Comments by members of the Board were to the effect that a rotation of auditing firms would be a desirable policy for the Board to follow, but that in view of the time element and the other factors referred to by Mr. Johnson, it would seem advisable to retain Arthur Andersen & Co. for the 1956 audit and advise that firm of the possibility that another company might be selected for the 1957 audit.

Thereupon, unanimous approval was given to a letter from Chairman Martin to Arthur Andersen & Co., Washington, D. C., in the following form:

It is requested that your firm undertake, as promptly after January 1, 1957 as is convenient, an audit of the books and accounts of the Board of Governors of the Federal Reserve System for the year 1956.

As in previous audits, no restrictions have or will be placed by the Board upon your firm as to the scope of the audit or the manner in which it is to be conducted, and you will make the audit as extensive and in such manner as appears to you to be desirable in accordance with generally accepted auditing standards. Compensation will be on the same basis as for the audit for the year 1955. The Board will appreciate written confirmation that you will undertake the audit on these terms.

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The suggestion has been made from time to time that the firm selected by the Board to audit its accounts be changed every three or four years. The Board is inclined to agree with this suggestion and it may be that another firm will be selected for the 1957 audit. A decision to employ another firm would not in any way reflect on the audits made by you because they have been entirely satisfactory; rather, it would reflect a desirable policy for the Board to follow as the central banking agency of the Federal Government.

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

The Secretary later was advised by Governor Shepardson that during the executive session the Board took the following actions, effective November 18, 1956:

Howard H. Hackley was appointed Associate General Counsel, with salary at the rate of \$15,000 per annum.

Robert C. Masters was appointed Associate Director of the Division of Examinations, with salary at the rate of \$14,500 per annum.

The meeting then adjourned.

Secretary's Note: On November 6, 1956, Governor Shepardson approved on behalf of the Board the following matters relating to the Board's staff:

Memorandum dated October 31, 1956, from Mr. Bethea, Director, Division of Administrative Services, recommending the appointment of Abraham Rose as Cafeteria Laborer on a temporary (two-month) basis, with basic annual salary at the rate of \$2,745, effective the date he assumes his duties.

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Memoranda dated November 5, 1956, from Mr. Johnson, Director, Division of Personnel Administration, recommending that the basic salaries of the following employees in that Division be increased from \$4,480 to \$4,620 per annum, effective November 18, 1956:

Billie Jo Hickman, Personnel Clerk
Gena Gander, Personnel Clerk

Governor Shepardson today approved on behalf of the Board a memorandum dated October 31, 1956, from Mr. Bethea, Director, Division of Administrative Services, recommending that the resignation of Margaret E. Royce, Mailing List Clerk in that Division, be accepted effective November 16, 1956.

Governor Shepardson also approved on behalf of the Board today the following letter to Mr. Campbell, Assistant Vice President, Federal Reserve Bank of Philadelphia:

In accordance with the request contained in your letter of October 30, 1956, the authorizations heretofore given your bank to designate the following employees as special assistant examiners for the Federal Reserve Bank of Philadelphia are hereby cancelled:

Charles V. Austin
Nicholas Ceto, Jr.
William G. Dobos
Howard W. Hillborn
E. Thomas Hannum
Wm. H. Crozier, Jr.

Albert N. Curley
John W. Kane
Gustav A. Kress
Robert E. Wilson
P. H. Delphey, Jr.
Joseph A. Costello

The Board approves the designation of the following employees of the bank as special assistant examiners for the purpose of participating in the examination of State member banks except the bank indicated immediately above their names:

The First Pennsylvania Banking and Trust Company,
Philadelphia, Pennsylvania

Albert N. Curley
John W. Kane
Gustav A. Kress

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Girard Trust Corn Exchange Bank,
Philadelphia, Pennsylvania

Robert E. Wilson
P. H. Delphey, Jr.

Tradesmens Bank and Trust Company,
Philadelphia, Pennsylvania

Joseph A. Costello
Nicholas Ceto, Jr.

Lafayette Trust Company, Easton, Pennsylvania

Nicholas Ceto, Jr.

The Easton Trust Company, Easton, Pennsylvania

Nicholas Ceto, Jr.

Provident Trust Company of Philadelphia,
Philadelphia, Pennsylvania

Charles V. Austin

The Board also approves the designation of the following employees of your bank as special assistant examiners for the purpose of participating in the examinations of State member banks:

William G. Dobos
Howard W. Hillborn

E. Thomas Hannum
Wm. H. Crozier, Jr.


Secretary