

Minutes for November 21, 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>[Signature]</u> | _____ |
| Gov. Szymczak   | x <u>[Signature]</u> | _____ |
| Gov. Vardaman   | x <u>[Signature]</u> | _____ |
| Gov. Mills      | x <u>[Signature]</u> | _____ |
| Gov. Robertson  | x <u>[Signature]</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 21, 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. Fauver, Assistant Secretary  
 Mr. Thurston, Assistant to the Board  
 Mr. Leonard, Director, Division of  
 Bank Operations  
 Mr. Vest, General Counsel  
 Mr. Young, Director, Division of  
 Research and Statistics  
 Mr. Noyes, Adviser, Division of  
 Research and Statistics

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, Marine Midland Trust Company of Central New York, Syracuse, 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 Marine Midland Trust Company of Central New York, Syracuse, New York, of a branch in "Shoppingtown," a suburban shopping center located on the east side of Route 5 (Erie Boulevard East) approximately two-tenths of a mile northerly from the northeast corner of Route 5 and Route 92 (East Genesee Street), an unincorporated area of the Town of DeWitt, Onondaga County, 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.

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Telegram to Mr. Exter, Vice President, Federal Reserve Bank of New York, reading as follows:

Your wire November 15. Board approves granting of loan or loans on gold by your Bank to Banque Nationale de la Republique d'Haiti up to \$1,500,000 on the following terms and conditions:

A. Such loan or loans to be made up to 98 per cent of the value of gold bars set aside in your vaults under pledge to you;

B. Such loan or loans to mature in three months with option to repay before maturity;

C. Any such loan or loans to be requested and made within thirty days of the date on which the Board approves the granting of such loan;

D. Each such loan to bear interest at the discount rate of your Bank in effect on the date on which such loan is made.

It is understood that the usual participation will be offered to the other Federal Reserve Banks.

Approved unanimously.

Letter to the Board of Directors, Mutual Trust and Deposit Company, New Albany, Indiana, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of St. Louis, the Board of Governors of the Federal Reserve System approves the establishment of a branch by Mutual Trust and Deposit Company, New Albany, Indiana, at the junction of Charlestown Road and Slate Run Road within the corporate limits of New Albany, provided the branch is established within six months from the date of this letter, and the approval given by the State banking authorities is effective as of the date the branch is established.

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

Letter to the Board of Directors, Walker Bank & Trust Company, Salt Lake City, Utah, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors hereby gives its written consent, under the provisions of Section 18(c) of the Federal Deposit Insurance Act, to the

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merger of Cache Valley Banking Company, Logan, Utah, and Sandy City Bank, Sandy, Utah, with and into Walker Bank & Trust Company, Salt Lake City, Utah, and approves the establishment by the latter bank of branches at

102 North Main Street, Logan, Utah,  
 115 South State Street, Sandy, Utah,  
 One North Main Street, Midvale, Utah, and  
 1720 West 12600 South Street, Riverton, Utah

provided (a) the merger is effected substantially in accordance with the terms of the agreement of merger dated October 11, 1956, (b) the branches are established within six months from the date of this letter, and (c) formal approval of the State authorities continues in effect. It is understood that capital accounts will be increased not less than \$2,105,200 by issuance and sale of additional capital stock for cash immediately after the merger is effected.

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

Telegram to Mr. Brawner, Federal Reserve Agent, Federal Reserve Bank of San Francisco, authorizing the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to Transamerica Corporation, San Francisco, California, entitling such organization to vote the stock which it owns or controls of Cache Valley Banking Company, Logan, Utah, at any time prior to February 1, 1957, to act upon a proposal to effect a merger of such bank into Walker Bank & Trust Company, Salt Lake City, Utah.

Approved unanimously.

Telegram to Mr. Brawner, Federal Reserve Agent, Federal Reserve Bank of San Francisco, authorizing the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to Transamerica Corporation, San Francisco, California, entitling such organization to vote the stock which it owns or controls of Walker Bank & Trust Company, Salt Lake City, Utah, at any time prior to February 1, 1957, to act upon proposals to (1) amend the articles of incorporation of such bank to increase its authorized capital stock from 73,000 shares with a par value of \$25 each to 189,468 shares with a par value of \$12.50 each, and (2) effect mergers of Cache Valley Banking Company, Logan, Utah, and Sandy City Bank, Sandy, Utah, into Walker Bank & Trust Company, Salt Lake City, Utah.

Approved unanimously.

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

Reference is made to your letter of November 12, 1956, and enclosures advising of the proposal of American Trust Company, San Francisco, California, to move its Santa Clara Branch in Santa Clara, California, to a new location one block from the present office.

It appears that this proposal would constitute a mere relocation of an existing branch in the immediate neighborhood without affecting the nature of its business or customers served, and, accordingly, we concur in your view that the approval of the Board of Governors is unnecessary.

It would be helpful in future cases if you would furnish us with the approximate distance of the present and future branch locations to competing banking facilities in the area.

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks reading as follows:

Under separate cover copies of form F.R. 107 are being sent to your Bank for use by State member banks in submitting their reports of earnings and dividends for the calendar year 1956. The form is the same as the one used in submitting reports for the first half of 1956.

Approved unanimously.

On November 9, 1956, the Board sent a letter to Mr. C. A. Armstrong, Treasurer of The Drackett Products Company, Cincinnati, Ohio, replying to his letter to Chairman Martin with regard to the handling by the Federal Reserve Bank of Boston of a check which the Company received from the Associated Grocers of Rhode Island, drawn on the Industrial National Bank of Providence. The check was returned unpaid because the grocery firm had entered receivership and the Drackett

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Company contended that the check had been unduly delayed in processing by the Reserve Bank. In its letter the Board stated that in circumstances of this kind, involving operating matters and questions of legal rights, it had been the consistent practice of the Board to leave the handling of the matter to the Federal Reserve Bank. Under date of November 13, 1956, Mr. Armstrong wrote to the Board again regarding the matter and stated that it might be followed up by litigation or by presentation to the Secretary of the Treasury for review if the Board did not overrule the Federal Reserve Bank of Boston. Copies of a draft of proposed reply had been distributed to the members of the Board prior to this meeting.

Mr. Vest stated that the legal problem was whether the Federal Reserve Bank of Boston was negligent in handling this check, that this was a question of fact, that the Reserve Bank took the position that it was not negligent, but that the Reserve Bank evidently held the check longer than usual and might have some difficulty in upholding its position if the matter was litigated. He said that in the absence of litigation the matter could be decided only by some compromise or agreement between the parties concerned, that he did not think it had ever been the practice of the Board to intervene in a case of this kind, and that he doubted whether the Board had authority to cause the Federal Reserve Bank to take any action. On the last point, he said that while the Board has responsibility for general supervision of the Reserve Banks, this would not seem to give the Board authority to make a requirement that a Federal Reserve Bank take affirmative

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action. Furthermore, he did not know what the Board could do if a Reserve Bank failed to comply with such a request.

Following a review of the facts of the case as reported by the Federal Reserve Bank of Boston, Mr. Leonard said that, according to the Reserve Bank, there probably would be no loss on the check eventually since the grocery firm was understood to be in process of reorganization and had not gone into bankruptcy.

Chairman Martin then asked Mr. Vest for a statement of the Board's responsibility in a matter of kind in the event the Board was unanimous in believing that a Federal Reserve Bank had been negligent.

Mr. Vest responded that whatever responsibility the Board had would be discharged by attempting to persuade the Reserve Bank to take such action as the Board considered desirable. He went on to say that from the standpoint of general policy it would be rather difficult for the Board to substitute its judgment for that of the Reserve Bank in a matter which was debatable and open to question.

In a further discussion, which related principally to the volume of checks handled for collection by the Federal Reserve Bank of Boston and the fluctuations in such volume, Mr. Leonard said that the Boston Reserve Bank has a considerable amount of holdover, that he understood the Bank used a first-in, first-out basis so that no check would be delayed more than one day, that officers of the Bank had looked into the matter at his request, and that he was assured that his understanding was correct. In the case in question, he said, it

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appeared to him that there might have been some inadvertent slip-up which resulted in the check not being processed and sent out for collection within a day after its receipt in accordance with the Bank's regular schedule. Mr. Leonard said he was also given to understand that Counsel for the Boston Reserve Bank would be very reluctant to admit liability in any case of this kind because, in view of the practice of holdover followed by the Bank, such an admission might result in a situation of unknown consequences. It was his understanding that the Boston Bank was doing the best it could with the increased volume of checks and the fluctuations in volume. That being so, the Bank would not appear to have been negligent in the case in question.

Governor Robertson referred to the current study of "float" and said that it should provide better information regarding the procedures of the Federal Reserve Banks in handling checks for collection and should suggest whether the current practices could be improved. He also said that if the study uncovered deficiencies relating to personnel or administration, such matters would be taken up with the Reserve Bank concerned.

In response to a question as to whether the Federal Reserve Bank of Cleveland was aware of Mr. Armstrong's complaint, Mr. Carpenter said that he had talked by telephone with President Fulton to inform him of the circumstances of the Drackett matter in the light of the Board's letter of November 9.

Governor Vardaman then stated that he felt the Board had permitted



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itself to become unduly involved, that the Drackett Company should have been told in the first instance that the matter was within the province of the Federal Reserve Bank of Boston, but that in the circumstances the proposed reply to Mr. Armstrong appeared to constitute a satisfactory reply. He suggested that the Board should not give as much attention as it had in this case to a relatively small item handled for collection in the usual course of a Reserve Bank's business.

Governor Shepardson expressed concern about Mr. Leonard's statement regarding the possibility of an error or an oversight not accounted for by the fluctuation in check volume. He said that if the Boston Reserve Bank followed a first-in, first-out policy, it was hard to see how an item could be delayed as long as in this case.

Comment with respect to Governor Shepardson's observation was to the effect that the large volume of checks handled for collection always presents the possibility of a certain number of clerical errors.

At the conclusion of the discussion, unanimous approval was given to a letter from Chairman Martin to Mr. Armstrong in the following form:

This is in response to your letter of November 13 regarding the return by the Federal Reserve Bank of Boston of a check for \$582.80 about which you had previous correspondence with the Federal Reserve Bank of Boston and the Board of Governors. The Board understands your feeling in this matter and I wish to assure you that the circumstances have been considered by the Board. This reply to your letter of November 13, as was the case with the Board's reply of November 9 to your earlier letter, has been discussed at a meeting and has been approved by the Board.

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Your letter states that "... since the Board of Governors issued the operating letters and regulations, no branch of the Federal Reserve System should be permitted to arrive at their own interpretations of the intent and purpose of the bulletins issued by your office". The Board has issued its Regulation J, Check Clearing and Collection, and questions involving the interpretation of that regulation are passed on by the Board. However, each Federal Reserve Bank is authorized to issue its own operating circular containing further details not inconsistent with the Board's regulation with respect to the conditions under which the Reserve Bank will undertake to collect checks received from its member banks. A question involving possible delay in the presentation of a check, as in this case, does not come within the scope of the Board's regulations. Each Reserve Bank has the right to return an unpaid check whenever it feels that it is not responsible for the failure to collect the check. Questions relating to the collection of checks are inevitable in the handling by the banking system of checks in large volume.

Let me say again that we regret the inconvenience and the possibility of loss that may occur in this matter. However, as stated in its letter of November 9, the Board does not feel that it is in a position to depart from its practice of leaving the handling of matters of this kind to the Federal Reserve Bank.

Your letter suggests that unless the Board is willing to overrule the Federal Reserve Bank of Boston you believe you must ask the Treasury for a review of the facts in the matter or institute suit to effect collection. Of course, you have the right to take the matter up with anyone you wish or to take whatever other action you deem appropriate to protect your interests, but I am sure you understand that the check collection function of the Federal Reserve Banks is not a matter concerning which the Treasury has responsibility.

In a letter dated August 28, 1956, the Board requested the views of the Chairmen of the Federal Reserve Banks with respect to whether (a) the differential between the maximum fee approved for head office and branch directors of Federal Reserve Banks should be eliminated, and (b) there should

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be any other changes in the existing schedule of fees and allowances approved by the Board for Reserve Bank directors and members of the Federal Advisory Council.

In a memorandum dated October 30, 1956, which had been circulated to the members of the Board before this meeting, Mr. Carpenter summarized the replies received, which contained suggestions with respect to (1) the elimination of the differential, (2) some increase in authorized fees, and (3) some increase in the allowance for expenses. Nine of the Reserve Bank Chairmen favored elimination of the differential, two would retain it, and one would retain it in part. Three of the Chairmen suggested some increase in the fees now authorized, and eight suggested an increase in the maximum expense allowance because of increased subsistence costs. The memorandum concluded by outlining alternative actions that the Board might consider in the light of the comments received.

Following a summary by Mr. Carpenter of the views of the Reserve Bank Chairmen, Mr. Leonard expressed the opinion that some adjustment in the current schedule of fees and expenses would appear to be justified. He went on to say that he thought the fee should continue to be related to meetings attended and that it was immaterial for this purpose how long a director took to travel from his residence to the meeting. He felt that the traveling time should be recognized by provisions relating to the expense allowance and that perhaps it would be well to surround the expense allowance with some precautionary

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conditions. It was his opinion that an expense allowance of \$25 per day would be reasonable if paid in such a fashion as to be applicable to those directors who must travel some distance to attend directors' meetings.

Governor Robertson expressed the view that the current schedule of fees was too low and that the authorized fee might well be increased to \$75 for each meeting attended. He further proposed that the fee be made applicable not only to head office but to branch directors. Regarding the expense allowance, he concurred in Mr. Leonard's suggestion that there should be appropriate safeguards. He then suggested that the allowance be put on an optional basis, with a director having the choice of a flat \$15 per diem or reimbursement for actual expenses not to exceed a certain amount per day, perhaps \$30. He agreed with Mr. Leonard that the fee should be related to meetings attended rather than the time the director was away from his place of residence.

Chairman Martin inquired whether the schedule of fees and allowances was uniform throughout the country, to which Mr. Carpenter replied that there were some differences with regard to the payment of fees and that the method of paying expense allowances differed from one Reserve Bank to another. He said that such differences were possible because the present schedule of maximum fees and allowances provides leeway for the exercise of discretion on the part of the boards of directors of the respective Banks.

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Governor Mills then made certain suggestions to the effect that the fee payable to directors might be related to the fee paid to consultants to the Board who are retained on a contractual basis. He felt that a fee of \$50 per meeting would be generally in line with the fee paid by commercial enterprises in areas outside of cities such as New York and Chicago. As to the expense allowance, he favored a per diem of \$25 applicable to the time spent by a director away from his place of residence on official business of the Federal Reserve Bank.

In a further discussion, Chairman Martin said he could not agree with a suggested concept that there should be a relationship between fees paid to Reserve Bank directors and fees paid to consultants for a Government agency. It was merely coincidence, he said, that the maximum fee payable to Reserve Bank directors and consultants to the Board was the same, and he would not want to disregard the regional concept of the Federal Reserve System in determining the policy that should be followed with respect to directors' fees.

Statements by other members of the Board indicated agreement with the philosophy expressed by Chairman Martin, and the discussion then reverted to consideration of the maximum fees and expense allowances that it would be appropriate for the Board to authorize. It was the consensus of the Board that the maximum fee for attendance at meetings should be increased, that it would be preferable if the Reserve Banks paid the same fees to branch directors as to head office directors, but that the final decision in such a matter should be left to the head office directors at the respective Reserve Banks. It was also the consensus

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that the establishment of a \$75 maximum fee would be appropriate, and the view was expressed that over a period of time a substantial degree of uniformity would develop throughout the System. On the subject of the expense allowance, there was general agreement that the existing allowance should be increased in view of its apparent inadequacy. In this connection, the suggestion was made that for operating purposes it would be better to provide a flat per diem allowance rather than to provide for the submission of detailed vouchers by the directors to cover actual expenses. After some discussion of the per diem level that would be most appropriate, agreement was reached on the figure of \$20, which would be payable to a director living outside the area of the place of the meeting for each day or substantial part thereof spent on Federal Reserve Bank business.

At the conclusion of the discussion, it was agreed that a letter to the Reserve Bank Chairmen should be prepared reflecting the conclusions reached at this meeting.

Mr. Leonard then withdrew from the meeting and Messrs. Molony, Special Assistant to the Board, and Wernick, Economist in the Division of Research and Statistics, entered the room.

At the request of the Board, Messrs. Young, Noyes, and Wernick described the plans which were being made for the labor economists' seminar to be held on Wednesday, November 28. Copies of a tentative agenda for the seminar were distributed, along with copies of three papers that had been received thus far from the visiting economists. It was stated that copies of papers prepared by others of the group would be distributed to the members of the Board as soon as they were received.

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Following a discussion of the plans for the seminar during which certain suggestions were made by members of the Board, Chairman Martin requested that any Board member having further comments on the agenda transmit them to Mr. Young.

With reference to the current study of consumer credit, Governor Mills noted that each member of the Board had now received a copy of the report prepared by Mr. Bailey, Special Consultant to the Board. He said that he thought it would helpful if Mr. Bailey could meet with the Board to discuss his findings, and that the most practical date would appear to be Friday, December 7.

It was agreed that Mr. Bailey should be invited to meet with the Board on the date suggested.

In a reference to the Board's current consideration of the maximum rates of interest on time deposits, Governor Balderston reported that he had received through the Division of Examinations information from the Federal Reserve Bank of New York which indicated that as of a recent date the percentage of time deposits at three New York City banks with maturities of under 90 days was less than 5 per cent of total time deposits and probably only about 3 per cent of the total. Time deposits at these banks with maturities ranging from 90 days to six months were estimated at about 40 per cent of total time deposits, so that time deposits with maturities of six months or more appeared

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to be more than 50 per cent of the total. Governor Balderston said he had been under the impression that the New York City banks were interested primarily in obtaining an increase in the maximum rates on time deposits with maturities of less than six months, while, if these figures are correct, perhaps 55 per cent of the time deposits were of longer maturity.

Chairman Martin stated that since it was planned to discuss the problem of maximum rates with the Presidents when they are here for the meeting of the Federal Open Market Committee on November 27, further consideration by the Board could be deferred until after that meeting.

Messrs. Thurston and Wernick then withdrew from the meeting and Messrs. Marget, Director, Division of International Finance, Furth, Chief, International Financial Operations Section in that Division, Sprecher, Assistant Director, Division of Personnel Administration, and Stetson, Personnel Assistant in that Division, entered the room.

Earlier this year the Federal Reserve Bank of New York requested that the Board increase from \$50,000,000 to \$100,000,000 the limitation on the amount of bankers' acceptances outstanding that the Bank was authorized to purchase and guarantee for foreign account. In a letter dated May 4, 1956, the Board requested the Reserve Bank to submit a memorandum reviewing the arrangements under which the Bank engages in acceptance transactions for foreign account, and also the effect of such purchases on the domestic acceptance market. Subsequently, a memorandum on the subject was submitted by the Reserve Bank with a letter from President Hayes dated October 30, 1956. This memorandum described the history and background of the present arrangements, the relationship of Federal Reserve



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purchases of acceptances for foreign central banks to the domestic market, and the reasons why it was felt that the New York Bank should continue to offer the facility, with an increase to \$100,000,000 in the maximum limitation on the aggregate contingent liability that could be assumed. The memorandum also suggested a reduction from 1/8 to 1/16 of 1 per cent in the commission charged for the Bank's guarantee.

Governor Robertson stated that after studying the memorandum he did not think that the question of raising the limitation from \$50,000,000 to \$100,000,000 was of too much importance. However, on the proposal to reduce the guarantee fee he raised a question whether the Federal Reserve Bank should endeavor to compete with the commercial banks for this type of business, which apparently would be the principal reason for lowering the guarantee fee. He also expressed some doubt whether it was necessary for the Reserve Bank to offer a guarantee of payment at maturity.

Governor Mills suggested that it might be advisable to consider together the request dealt with in the memorandum from the Federal Reserve Bank of New York and the proposal made by Vice President Rouse of the New York Reserve Bank at the last meeting of the Federal Open Market Committee that there be an increase from \$25,000,000 to \$50,000,000 in the amount of bankers' acceptances that can be acquired by direct purchase for the account of the Federal Reserve Bank of New York. With regard to the first request, he said that in view of unsettled conditions in international markets, the fact that it was difficult to find a market for

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acceptances, even with a higher yield, and the fact that there appeared to be a current move away from the purchase of acceptances on the part of foreign central banks as they required funds for use in other ways, he felt that it might be preferable to defer a decision until the Board could get a better perspective of developments in the international sphere. He went on to say that the proposal of the New York Bank to raise the maximum limitation and reduce the guarantee fee would provide a further incentive for foreign central banks to handle such transactions through the Reserve Bank rather than the commercial banking system. This would tend to reduce the market for bankers' acceptances outside of foreign central banks and make it more difficult to develop a broad market for such paper.

With regard to the suggestion of Mr. Rouse at the meeting of the Federal Open Market Committee, Governor Mills expressed the view that a case might be made for increasing the limitation to \$50,000,000 on a temporary basis, with the thought that the Federal Reserve Bank of New York, as a reluctant purchaser, would serve as a safety valve during the current period. When conditions changed, he felt that for reasons which he outlined the limitation should revert to \$25,000,000.

In a further discussion Governor Szymczak recalled that at times in the past the Board had indicated to the New York Reserve Bank the desirability of encouraging foreign central banks to channel as many as possible of their financial operations in this country through the Federal Reserve Bank, the thought having been that this might enable the Bank to have some policy influence.

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With reference to Governor Szymczak's comment, Chairman Martin read a letter from the Board to the Federal Reserve Bank of New York dated February 9, 1937, which indicated agreement on the part of the Board that it was desirable for the Bank to purchase bankers' acceptances for the account of foreign central banks in order that such transactions might be concentrated as much as possible and that the System therefore might be informed currently and fully as to all such transactions and their effect on the market.

Chairman Martin then suggested that Governor Mills be asked to explore the matter with the Federal Reserve Bank of New York and that the timing of its further consideration by the Board be left to Governor Mills.

There was unanimous agreement  
with these suggestions.

Messrs. Fauver, Thomas, Young, Marget, Noyes, Molony and Furth then withdrew from the meeting.

Pursuant to the understanding at the meeting on November 13, 1956, there was a further discussion of the proposals of Industrial Relations Counselors Service, Inc., concerning the retirement benefits available to employees of the Board, and of the recommendations on the matter submitted by Governors Szymczak and Shepardson, who had been named as a committee of the Board to study the proposals. For the purpose of this discussion, Governors Szymczak and Shepardson had submitted under date of November 16, 1956, a memorandum designed to supplement and clarify the material presented in their earlier memorandum, and copies thereof had been sent to the members of the Board prior to this meeting.

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Following a restatement and discussion of the problem and the committee's recommendations during which Mr. Johnson, Controller, and Director, Division of Personnel Administration, entered the room, the meeting recessed and reconvened at 2:00 p.m. with the same attendance as at the end of the morning session except that Mr. Sherman was not present.

The discussion of the material covered in the memoranda from Governors Szymczak and Shepardson continued and Governor Vardaman repeated the statement which he had made at the meeting on November 13 that he could not go along with the plan recommended by the Board's committee. He said that adoption of the plan would mean that a person transferring from a Civil Service position to the Board would be forced to forego the benefits of the Civil Service Retirement System and shift over to a privately operated, non-guaranteed retirement system. He would consider it much preferable to adopt a plan under which all new employees of the Board would become members of the Civil Service Retirement System, with the result that the Board Plan of the Retirement System of the Federal Reserve Banks eventually would be eliminated through attrition. He said that he continued to look with disfavor on the Federal Reserve Retirement System in principle and more particularly because of investment policies.

Governor Mills stated that he was sympathetic to the view of the Board's committee that there should be a single retirement plan for all employees of the Board, if it was undisputably established that such

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an objective could be accomplished without undue cost to the Federal Reserve System and without producing benefits for any group of employees that would be inconsistent with relative benefits under the Civil Service Retirement System. While he would therefore be inclined to favor approval of the committee's recommendations, he would be better satisfied if any decision could be deferred until after the report of the special committee now studying the proposals of Industrial Relations Counselors Service relative to the retirement benefits of Federal Reserve Bank employees had been completed.

In response to a question, it was stated that the report referred to by Governor Mills was expected to be available early in 1957.

Governor Robertson stated that while he could appreciate the problems that might arise in administering three different retirement plans for employees of the Board, he could not bring himself to accept the recommendation of the Board's committee. His feeling was that it would be preferable to continue under the current procedures, because it appeared that difficulties which might be eliminated by adopting any alternative plan would be offset by other problems. Under the present procedures he felt that the principal problems must be of an administrative nature, since it did not appear that any major inequities were involved.

In a discussion of Governor Robertson's remarks, it was stated that the Division of Personnel Administration had not encountered unusual personnel or administrative problems under the current procedures, although the counseling service appeared to envisage the possibility of

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some problems arising in the future. Therefore, the committee's recommendations stemmed for the most part out of the thinking of the counseling service that it would be advisable to have a single plan of retirement. In this connection, it was reported that other Government agencies maintaining their own retirement systems were understood to allow new employees who had been members of the Civil Service Retirement System the option of continuing under that plan.

Governor Balderston commented that to him a single plan of retirement would appear preferable from a personnel standpoint. On the other hand, he felt that the advantages to be gained perhaps would be offset by public relations difficulties. Consequently, his present views on the subject tended to be along the lines of those expressed by Governor Robertson. He noted that if the committee's suggestion was adopted, the Board would still be in a position where it might have to make large accrued liability payments whenever the Congress passed legislation liberalizing the benefits under the Civil Service Retirement System. While Governor Vardaman's proposal would eliminate that problem, it would result in bringing the Federal Reserve System, particularly the Federal Reserve Banks, closer to Governmental rules and regulations. In other words, while the apparent economies of such a plan would be helpful from the point of view of public relations, the proposal would present other problems which must be considered. After attempting to evaluate the conflicting factors, he was led to believe

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that on the whole it might be just as well to continue the current procedures.

With reference to the public relations aspects of the matter, Governors Szymczak and Shepardson brought out that their contacts with the Civil Service Commission had not gone beyond the staff level and that there had not been any contact with Congressional committees or representatives of such committees. While the reaction of the Civil Service staff to the plan which they recommended was favorable, they recognized that members of the Civil Service Commission might take a different attitude. Since the committee was not prepared to speak on behalf of the Board, it was deemed inadvisable to go to the Commission itself.

With reference to the cost aspects, Governor Shepardson again stated that the apparent cost differences between the two proposals constituted largely a bookkeeping proposition. For example, whether the Board paid a lump sum into the funded Federal Reserve Retirement System on account of accrued liability resulting from additional benefits of the Board Plan or whether the Board contributed to the Civil Service Retirement System over a period of time, he felt that in the long run the cost to the Government would be about the same, bearing in mind the transfer of Reserve Bank earnings to the Treasury and the necessity for appropriations to sustain the Civil Service Retirement System.

Chairman Martin stated that in his thinking on the matter he came out at about the same place as Governor Mills. While he did not

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pretend to understand all of the ramifications and legal implications of the retirement operation, he would be inclined to support the recommendations of the Board's committee because, after having gone over the arguments on both sides several times, he found none of them entirely persuasive. He would not want to exaggerate the public relations aspects of the problem and he felt, with regard to the cost aspects, that much depended on what kind of an approach was used in analyzing the expense factors. Since it appeared that there was no unanimity of opinion on the part of the Board and he questioned whether a matter of this kind should be decided on a split vote, he would be agreeable to deferring action if any useful purpose would be served by a delay. In this connection, he inquired whether it might not be helpful, as Governor Mills had suggested, to wait for the report on the counseling firm's proposals relating to the Federal Reserve Banks before reaching a decision.

Governor Szymczak commented that he did not know what position the Reserve Bank report would take. He said that difficult questions were involved because the proposals of the counseling firm were along the lines of providing benefits similar to those provided by private enterprise.

Chairman Martin then suggested that further discussion of the subject be deferred until the report on the proposals relative to the Federal Reserve Banks was available. In the meantime, he said, he would discuss the matter informally with Chairman Young of the Civil Service Commission if the Board so desired.

There was unanimous agreement with the procedure suggested by Chairman Martin.



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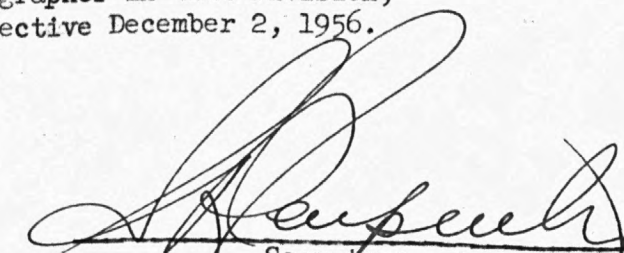
All of the members of the staff except Mr. Johnson then withdrew from the meeting.

At its meeting on March 26, 1956, the Board authorized the retaining of Mr. Persina, Consulting Architect to the Board, to study the redecorating and revamping of the Board Members' dining room (the so-called Brown Room). After the meeting today, the Secretary was informed by Governor Shepardson that during the executive session the Board authorized the refurbishing of the "brown dining room" and approved for that purpose the following schedule of expenditures:

|  |                          |
|--|--------------------------|
| Overall carpet with jute underlay                                    | \$ 400.00                |
| Two pairs of draperies with valance board covered with same material | 280.00                   |
| Two pair of nylon casement cloth curtains                            | 30.00                    |
| Two wall paper murals - Williamsburg #25                             | 531.00                   |
| Hanging murals   | 255.00                   |
| Four bracket lights, curved glare shades                             | 80.00                    |
| Painting East and West walls, panels and ceiling                     | 50.00                    |
|  | <u>\$1,626.00</u>        |
| Round-out for contingency  | 74.00                    |
|  | <u>74.00</u>             |
| Total  | <u><u>\$1,700.00</u></u> |

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the recommendation contained in a memorandum dated November 19, 1956, from Mr. Sloan, Director, Division of Examinations, that the resignation of Eleanor A. Murto, Stenographer in that Division, be accepted effective December 2, 1956.

  
Secretary