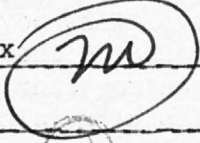
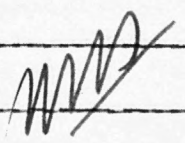

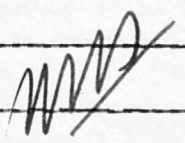
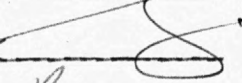

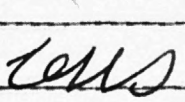
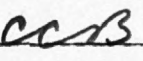



The attached set of minutes of the meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks on January 29, 1957, which you have previously initialed, has been amended at the suggestion of the Secretary of the Presidents' Conference, to revise the remarks of Messrs. Hayes and Leach on page 4.

If you approve the minutes as amended, please initial below.

	A	B
Chm. Martin	x 	
Gov. Szymczak		x 
Gov. Vardaman	x 	
Gov. Mills	x 	
Gov. Robertson	x 	
Gov. Balderston		x 
Gov. Shepardson	x 	

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks held on January 29, 1957.

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

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

	A	B
Chm. Martin	<input checked="" type="checkbox"/> <i>M</i>	
Gov. Szymczak	<input checked="" type="checkbox"/> <i>MS</i>	<input checked="" type="checkbox"/> <i>MS</i>
Gov. Vardaman	<input checked="" type="checkbox"/> <i>W</i>	
Gov. Mills	<input checked="" type="checkbox"/> <i>[Signature]</i>	
Gov. Robertson	<input checked="" type="checkbox"/> <i>R</i>	
Gov. Balderston		<input checked="" type="checkbox"/> <i>CCB</i>
Gov. Shepardson	<input checked="" type="checkbox"/> <i>SP</i>	

A joint meeting of the Board of Governors of the Federal Reserve System and the Presidents of the Federal Reserve Banks was held at the Federal Reserve Building in Washington, D. C., on Tuesday, January 29, 1957, at 2:00 p.m.

PRESENT: Mr. Martin, Chairman
Mr. Vardaman
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary

Messrs. Erickson, Hayes, Williams, Fulton, Leach, Bryan, Allen, Johns, Powell, Leedy, and Mangels, Presidents of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and San Francisco, respectively.

Mr. Shuford, Vice President and General Counsel of the Federal Reserve Bank of Dallas

Mr. Boysen, Secretary of the Conference of Presidents of the Federal Reserve Banks

Messrs. Riefler, Thomas, Leonard, Vest, Young, Solomon, Robinson, Allison, and Grimwood of the Board's staff, Messrs. Clarke and Roosa of the Federal Reserve Bank of New York, Messrs. Abbott and Freutel of the Federal Reserve Bank of St. Louis, and Messrs. Hostetler, Daane, Mitchell, and Tow of the Federal Reserve Banks of Cleveland, Richmond, Chicago, and Kansas City, respectively, also attended the meeting during the discussion of the first item on the agenda.

The Presidents had submitted to the Board earlier a statement and a supplemental statement listing and commenting on the topics which they wished

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to discuss with the Board at this meeting. The topics, the statement of the Presidents with respect to each, and the discussion at this meeting were as follows:

1. Plans for Emergency Operations. As a result of negotiations through its Subcommittee on Emergency Check Operations with the Commercial Banking Committee on Emergency Operations, the Special Committee on Emergency Operations presented a report dated January 28, 1957, recommending that--
 - (a) Schedule G of the Special Committee's Report of June 8, 1955, having to do with collection of checks in an emergency, be amended to provide among other things that checks drawn on banks suspended on account of damage be retained by correspondent member banks and that Federal Reserve Banks credit such correspondent banks for the amount of all such checks;
 - (b) The Reserve Banks proceed to select agent or key banks for distribution of cash, as proposed in Schedule F submitted with the Special Committee's report of June 8, 1955;
 - (c) System representatives be prepared to discuss the problems of relocation centers with representatives of the Commercial Banking Committee working on this matter;
 - (d) That a broad System-wide policy be established in the matter of setting up complete facilities at Reserve Bank relocation centers;
 - (e) Steps be taken to augment communication facilities now installed at the Reserve Bank relocation sites.

Action on the report was deferred by the Presidents pending a further discussion of emergency planning at the Joint Session with the Board of Governors.

In order to afford background to the Presidents in connection with this topic and keep them abreast of developments, a review was

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presented of several elements of the defense planning program being carried on throughout the System.

Governor Robertson enumerated the elements of the total program as follows: (1) the emergency planning operations of the Federal Reserve Banks; (2) defense exercises within the Government such as the mobilization exercise currently in process; (3) representation of the Board on the interagency committee working on plans for Operation Alert 1957; (4) the comprehensive program of preparedness measures currently being formulated at the Board with the cooperation of representatives of Federal Reserve Banks; (5) the planning program of the commercial banks; and (6) the continuing assignment of the Chairman of the Board as a member of the Defense Mobilization Board.

At the request of Governor Robertson, reports were made by members of the Board's staff on Board and Federal Reserve Bank participation in the current mobilization exercise and on the defense planning work currently being carried on by the Board and the Reserve Banks.

Following this presentation, President Williams made a statement regarding the report of the Special Committee on Emergency Operations, as set forth above, and recommended that, in the light of the report on the defense planning program given at this meeting, the recommendations contained in the report of the Special Committee be approved by the Conference.

President Hayes stated that the New York Reserve Bank had certain reservations concerning the report of the Special Committee, but was

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willing to go along with it. These reservations related to the recommendation having to do with the granting of credit against uncollectible checks, the principal question being whether the adoption of such a policy as recommended by the Special Committee report should be deferred until the underlying assumption that some form of indemnification program to assure that no bank would become insolvent as a result of enemy action has received official sanction. It might well be the better procedure, Mr. Hayes said, to go ahead and work out arrangements with the commercial banks, with the understanding that if necessary such arrangements could be changed.

On this point Governor Robertson said that while the arrangements made could develop to be wrong, it seemed essential to make some arrangements, recognizing that changes might be necessary.

President Leach commented that he assumed the commercial bank preparedness manual would contain appropriate provisions to make it clear that the arrangement contemplated would go into effect only if certain basic assumptions should be adopted by the authorities.

Thereupon, upon motion by President Leach, the report of the Special Committee on Emergency Operations dated January 28, 1957, was approved unanimously by the Presidents' Conference.

2. Review of the retirement plan of the Reserve Banks.
Mr. Johns discussed with the Conference the report and recommendations, dated January 18, 1957, of the Special Joint Committee which was assigned the task of considering the report of December 1955 by Industrial Relations Counselors Service, Inc., following

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its study of the Retirement System of the Federal Reserve Banks and other employee benefits. In brief, the report of the Special Joint Committee advised, for reasons of broad policy, against two major recommendations made in the IRCS report, namely: (1) discontinue the contributory feature of the Bank Plan, refunding accumulated contributions of active members if requested, and make a liberalized pension, to be provided wholly at bank expense, the exclusive retirement vehicle; (2) establish a voluntary contributory thrift plan. The report pointed out, however, that findings by IRCS during its study demonstrated to the satisfaction of the Special Joint Committee that IRCS was wholly justified in recommending "that Bank-provided pensions be somewhat liberalized", and the report contained recommended amendments to the retirement plan to bring this liberalization about.

Mr. Johns will discuss the views of the Presidents with respect to the report at the Joint Session with the Board of Governors.

After commenting on the report and recommendations of the Special Joint Committee, referred to in the above topic, President Johns said that the report was discussed by the Presidents' Conference this morning and that agreement was expressed with the recommendations contained therein. He suggested that, if the Board was agreeable, copies of the report would be sent to the Board promptly, with the thought that the Board could then indicate to the Presidents' Conference what further procedure should be followed. In this connection, Mr. Johns referred to the several procedural steps that would have to be taken before any changes affecting the Retirement System of the Federal Reserve Banks became effective. He went on to say that perhaps the presence of the Reserve Bank Presidents in Washington on the occasion of a meeting of the Federal Open Market Committee would afford an opportunity for the Board and the Presidents to meet on the matter.

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Chairman Martin stated that the Board would be glad to receive the report of the Special Joint Committee and, after having had an opportunity to review the report, would communicate further with the Presidents' Conference on the matter.

3. Study of proposed changes in Federal Reserve Act and related statutes. The Conference received a report dated January 18, 1957, from the Subcommittee on Legislation covering a review undertaken at the request of the Conference of (a) legislative recommendations submitted to the Senate Banking and Currency Committee by the Board of Governors and other financial agencies in connection with the current study of banking laws, and (b) the recommendations which were submitted by the Federal Reserve Banks to the Board of Governors in connection with the study. The purpose of the review was to determine those recommendations which might be in any way controversial and which might deserve further study by special or standing committees of the Conference. Inasmuch as a Committee bill was available before the review was prepared, the Subcommittee deemed it desirable to concentrate on the bill itself, with consideration also of the above mentioned recommendations.

The views and recommendations of the Subcommittee were set forth in the report under the following headings:

Specific proposals questioned, and legislation suggested, by Subcommittee on Legislation
 Specific proposals calling for System study by other Conference committees
 Monetary Commission and areas for broad System study
 Comments on specific recommendations and on provisions of Committee bill

Inasmuch as there had been insufficient time for full consideration of the report, neither the Committee on Legislation nor the Conference approved any of its recommendations, but concurred in the view of the Subcommittee that the following portions of the report should receive priority of consideration:

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- Page II-2. Last paragraph - relating to "Federal Reserve Bank Directors residents of District"
- Page II-3. Payment of interest on deposits
- Page II-3. Authority to prescribe by regulation employment that may involve conflict of interest
- Page II-4. Criminal code provisions regarding relations of Federal Reserve personnel and member banks

The report is submitted to the Board for whatever use or value it may have in connection with the forthcoming hearings before the Robertson Committee. The report will be further considered by the Committee on Legislation with the expectation that the Committee will cause such further studies to be made in line with recommendations in the report as it may determine are desirable and cannot await the next meeting of the Conference; and as to other recommended studies the Committee will report its views at a subsequent meeting of the Conference.

Following comments by Chairman Leedy and President Hayes on the work of the Subcommittee on Legislation, the latter said that although a certain amount of duplication in relation to work already done by the Board and others might be involved, it was felt that the Subcommittee's report might be useful in connection with the forthcoming hearings of the Senate Banking and Currency Committee on the Robertson bill, particularly the comments on the four items specifically mentioned in the statement submitted by the Presidents' Conference on this topic.

Chairman Martin stated that the Board would be glad to have the Subcommittee's report. He went on to say that that the Board had designated Governor Robertson, who represented the Board at the hearings on this matter last November, to represent the Board again at any further hearings that might be held on the bill.

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Governor Robertson said that a copy of the report, sent to the Board in advance of the meeting of the Conference, had proved helpful to him and that he felt the four specifically mentioned items could be covered in testimony before the Banking and Currency Committee.

4. Employment of specialist in electronics equipment.
The Presidents considered a letter report dated November 28, 1956, addressed to Mr. Fulton, Chairman, Committee on Miscellaneous Operations, from the Subcommittee on Electronics, proposing employment of a qualified person on a full-time basis to keep in touch with developments in mechanization of check handling operations, as well as with the work of the A.B.A. technical Subcommittee on Mechanization of Check Handling. The Conference approved the proposal and authorized the Committee on Miscellaneous Operations to undertake to employ a person qualified for the assignment. It was understood that when employed the person would be located as a System employee at the Federal Reserve Bank of New York, that he would work under the supervision of the Chairman of the Subcommittee on Electronics, and that his salary and other related expenses would be prorated among the Reserve Banks.

After President Fulton had reviewed the nature of this proposal and the objectives of the proposed arrangement, Chairman Martin stated that, although the subject had not been discussed by the Board previously, the Board would be glad to take the matter under consideration and advise the Presidents of its views as promptly as possible.

At the instance of Governor Vardaman, there followed a discussion of certain phases of the proposal, including the availability of a qualified individual, salary arrangements, and the appropriate headquarters for any such person who might be located.

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In view of the points raised in this discussion, Chairman Martin suggested that it might help to expedite consideration of the subject if the Presidents' Conference were to pursue the matter further and present a more specific proposal to the Board.

Agreement having been expressed by the Presidents, it was understood that the procedure suggested by Chairman Martin would be followed.

5. Report of Joint Committee on Check Collection System. Mr. Erickson reported on progress being made in the Boston District in implementing the report of the Joint Committee on Check Collection System. He said that a committee of Boston Clearing House banks has prepared a report covering participation by the Boston banks in the program, and that the next step is to submit the report for approval by the Clearing House banks. In accordance with previous approvals by the Board of Governors and the Conference, other Reserve Banks have deferred taking any similar action toward implementing the report in their Districts pending the outcome of the trial run at Boston. At the current Conference the Presidents indicated their agreement to a suggestion that other Federal Reserve Banks be permitted to undertake similar programs in their Districts if their local banks evidence an interest in pursuing the matter.

President Erickson reviewed the steps taken thus far in the Boston Reserve District with a view to instituting the pilot operation. In his comments, he said that although additional consideration of the plan had appeared to diminish somewhat the initial enthusiasm of the Boston City banks, principally because of the increased volume of checks that would be routed to them for collection without the prospect of any appreciable increase in the balances held with them by banks elsewhere

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in the District, the Boston banks were prepared to go through with the plan.

With regard to the suggestion, as referred to in the above statement, that other Federal Reserve Banks be permitted to undertake similar programs in their Districts if their local banks evidenced an interest in pursuing the matter, reference was made to the Board's letter to the Chairman of the Presidents' Conference dated May 14, 1956, with regard to the pilot operation in the Boston District. In this letter the Board stated that, according to its understanding, the implementing actions to put the pilot operation into effect would be initiated and carried forward by bankers in the District in consultation with the American Bankers Association and the Federal Reserve Bank of Boston, and that in the circumstances the Board would have no objection to the proposal.

It was understood, following a statement by Chairman Martin on the position taken by the Board in 1956, that if other Federal Reserve Banks desired to participate in a program to implement the report of the Joint Committee on Check Collection System under the same circumstances as set forth in the Board's letter of May 14, 1956, the Board would have no objection.

6. Currency verification and destruction at Reserve Banks. In response to the Board's letters of November 19 and December 31, 1956, the Presidents considered the present arrangement for the verification and destruction of unfit United States

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paper currency, in the light of problems experienced in the San Francisco and Dallas Reserve Banks, and also with the Board's suggestion in mind that the Presidents "be prepared to discuss a position which might be presented by the Board and the Federal Reserve Banks to the Treasury on the question whether the practice of shipping unfit United States currency to the Treasury for destruction should be reinstated and, if not, what additional steps should be taken to eliminate to the fullest extent practicable the possibilities of defalcation and collusion inherent in the existing arrangement."

It was the consensus of the Conference that, despite the ineradicable and inherent dangers in the currency verification and destruction operation, it would not be desirable to approach the Treasury with the request that the Federal Reserve Banks be relieved of the responsibility of performing the operation. It was the view, however, that operating procedures in the banks should be carefully reviewed for the purpose of incorporating any additional safeguards which appear to be practical and necessary.

Chairman Leedy said that in general there was no enthusiasm on the part of the Presidents for the existing arrangement. However, it was the majority view that inasmuch as the operation had been undertaken as a fiscal agency operation, the Treasury presumably had considered carefully the risks involved, and methods of procedure had been worked out by the Treasury jointly with the Federal Reserve Banks, the System would find it difficult to request the Treasury to relieve the Reserve Banks of this work. There was full agreement, he said, that everything possible should be done to provide additional safeguards, if any could be provided, and the suggestion was made that the General Auditors of the Federal Reserve Banks might be asked to

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explore the possibility of additional safeguards at their forthcoming conference.

In a discussion of the subject, Governor Vardaman said he felt strongly that a request should be made of the Treasury that the Federal Reserve Banks be relieved of this operation in view of the inherent risks. He also suggested that, although the current procedure might result in a saving to the Treasury, the saving actually was offset for the most part by a shifting of costs.

Chairman Martin then stated that the Board would give further consideration to the matter in the light of the views expressed by the Presidents' Conference.

7. Amendment of Regulation D and Regulation Q to prohibit the labeling of a deposit as a "Savings Certificate" where the deposit would not qualify for classification as a savings deposit but would qualify for classification as a time certificate of deposit. The Conference gave its attention to the above question, which was raised in the Board's telegram of January 18, 1957, to Chairman Leedy. The discussion revealed that the term "Savings Certificate" is not used at all extensively throughout the country, and that where it is used the term was probably adopted for competitive purposes with other savings institutions. It was the view of the Conference, therefore, that it would not be desirable to amend the Regulations in the manner indicated.

Chairman Leedy said it was the feeling of the Presidents that commercial banks in many sections of the country might be placed at a disadvantage competitively with savings and loan institutions and other institutions competing for savings if they were prohibited from labeling the certificates in question, if they so desired, as savings certificates. It was felt, he said, that the term "savings" in the popular

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conception embraces a large area, and that an adverse ruling on the matter would not be justified.

Governor Robertson asked whether, if the Board upon further consideration came to a different conclusion, the practice could be stopped merely by having the Federal Reserve Banks talk with the member banks concerned, since it appeared from the statement submitted by the Presidents' Conference on this topic that the practice was not widespread.

Chairman Leedy replied that the statement of the Presidents was intended to mean that the practice was believed to be confined principally to certain areas.

President Allen commented that the practice perhaps was followed more extensively in the Seventh Federal Reserve District than elsewhere. Recently, he said, it was suggested to a member bank that the practice, one of long standing on its part, was contrary to the spirit of the Board's regulations, to which the member bank replied that it would not like to have to discontinue the practice. If any change was required, Mr. Allen added, he hoped the action would not be abrupt because of the long-standing custom involved.

Chairman Martin then stated that the Board would take the views of the Presidents under consideration in its further study of the matter.

8. Additional items of information arising out of current Conference meeting. In addition to the foregoing items, the following matters of possible interest were considered by the Conference. They are reported herein as a matter of information.

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- a. Mr. Fulton reported that in light of a recent letter from IBM announcing marketing plans for its equipment, the Subcommittee on Machine and Tabulating Equipment had undertaken a study of the pros and cons of purchase versus rental of IBM equipment now installed at the Reserve Banks. Information gathered thus far indicates that the Committee's conclusions will support continuing use of the equipment on a rental basis, but in view of the fact that the study has not been completed, the Conference carried the matter over to the next Conference meeting.
- b. Mr. Leach, Chairman of the Committee on Fiscal Agency Operations, reviewed with the Conference a report of the Subcommittee on Fiscal Agency Operations relating to a meeting held on November 28, 1956. The report was largely informational in character and discussed the progress being made by the Subcommittee in its efforts toward simplification of procedures for obtaining reimbursement of expenses. In an accompanying transmittal letter dated January 14, 1957, to Mr. Leach, the Subcommittee sought approval for carrying forward certain phases of its work. The Conference received the report and authorized Mr. Leach to extend to the Subcommittee the additional authority his Committee deemed necessary and appropriate to permit continuance of its work.
- c. A discussion was held as to the desirability of reviewing the present rental rate charged government agencies for use of bank owned space, primarily for the purpose of determining whether the present reimbursement rate is adequate in light of increased operating costs since the present rate was established in 1947. At the suggestion of Mr. Leach, it was agreed that the task of reviewing the question should be assigned to the Subcommittee on Fiscal Agency Operations.

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There was no discussion with respect to any of these items.

The meeting then adjourned.



Secretary