

Minutes for September 30, 1957

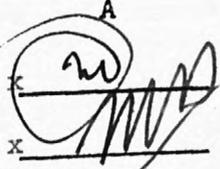
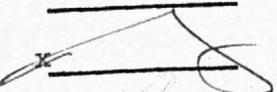
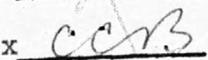
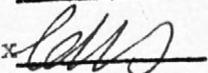
To: Members of the Board

From: Office of the Secretary

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

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

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

	A	B
Chm. Martin	<input checked="" type="checkbox"/> 	_____
Gov. Szymczak	<input checked="" type="checkbox"/> 	_____
Gov. Vardaman <u>1/</u>	_____	<input checked="" type="checkbox"/>
Gov. Mills	<input checked="" type="checkbox"/> 	_____
Gov. Robertson	<input checked="" type="checkbox"/> _____	_____
Gov. Balderston	<input checked="" type="checkbox"/> 	_____
Gov. Shepardson	<input checked="" type="checkbox"/> 	_____

1/ In accordance with Governor Shepardson's memorandum of March 8, 1957, these minutes are not being sent to Governor Vardaman for initial.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, September 30, 1957. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary  
 Mr. Sherman, Assistant Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Fauver, Assistant Secretary  
 Mr. Riefler, Assistant to the  
 Chairman  
 Mr. Thomas, Economic Adviser to  
 the Board  
 Mr. Molony, Special Assistant to  
 the Board

Messrs. Marget, Bangs, Furth, Hersey,  
 Reynolds, Sammons, and Wood of the  
 Division of International Finance

Messrs. Young, Noyes, Robinson, Koch,  
 Williams, Dembitz, Tamagna, Brill,  
 Eckert, Gehman, Jones, Miller,  
 Weiner, Klamann, Trueblood, and  
 Wernick of the Division of Research  
 and Statistics

Review of economic developments. The members of the Division of International Finance presented their review of selected international financial developments against a background of allegations in some quarters that the recent mass speculation in foreign exchange rates might be considered only an outward manifestation of an impending world-wide liquidity crisis, attributable principally to the re-emergence of a "dollar gap".

9/30/57

-2-

It was their conclusion that one must look instead to the internal problems of the particular countries experiencing losses of reserves and that emphasis must be placed on these countries standing up to such problems.

The Division of Research and Statistics, commenting in the light of current uncertainty in business and financial quarters regarding future prospects, sketched a picture of domestic developments reflecting generally a continued sidewise movement in the economy at a high level of activity, with mixed indications as to the extent of further expansion in the near future.

All of the members of the research staff except Mr. Sammons then withdrew from the meeting, along with Messrs. Thomas and Molony, and the following members of the staff entered the room: Messrs. Leonard, Director, Horbett, Associate Director, and Conkling, Assistant Director, Division of Bank Operations; Johnson, Controller, and Director, Division of Personnel Administration; Hackley, General Counsel; Masters, Director, Division of Examinations; and Solomon and Shay, Assistant General Counsel.

Instructions for reporting purchases of securities under resale agreements and similar market transactions. In a memorandum to the Board dated September 5, 1957, Mr. Conkling summarized Reserve Bank comments and other views with respect to possible alternative revisions

9/30/57

-3-

in the call report instructions for reporting security purchases under resale agreements and similar money market transactions. In a second memorandum, submitted under date of September 27, 1957, he reported that agreement had now been reached with the Office of the Comptroller of the Currency on revised instructions to accompany the forms for the forthcoming call. The effect of the instructions would be to have purchases of securities under resale agreements reported as loans, and sales of securities under repurchase agreements reported as borrowings in reports of condition and also in reports of examination. All transactions of this type, including simultaneous purchases and sales, buy-backs, turnarounds, overnight transactions, and delayed deliveries, would be so reported regardless of the terminology used, where the purpose of the transaction was to resell (repurchase) identical or similar securities. The purchasing bank, being required to report the transaction as a loan, could not include the purchased securities in its portfolio. Submitted with the memorandum was a draft of letter along such lines which would be sent to the Federal Reserve Banks if the Comptroller of the Currency should send similar instructions to national banks. If the draft of letter should be approved by the Board, it was suggested that the Division of Bank Operations be authorized to make such minor changes in phraseology as might be agreed upon with the Comptroller's Office.

9/30/57

-4-

In commenting on the matter, Mr. Conkling referred to possible alternative approaches to the problem, one of which would be to refer in the instructions only to purchases (sales) of securities under resale (repurchase) agreements, thus leaving the reporting of somewhat similar transactions in a twilight zone until final decisions could be reached. Although this course appeared to be favored by some at the Federal Reserve Bank of New York, where differences of opinion were understood to exist, he said it was the feeling among the Board's staff and at the Comptroller's Office that any change in the instructions subsequently decided upon might be viewed as a tightening process. Another possible alternative, which he personally did not favor for reasons discussed in his memorandum of September 27, would be to expand the condition report form to include new items for special types of transactions.

As to the effect of the proposed revised instructions on the member banks, Mr. Conkling said that this would of course make them report as loans items heretofore carried in their securities portfolio and that certain banks reportedly already had loans of this character several times as large as the current statutory limitation on such loans to one person would permit. Thus, they would now have to parcel out the loans to conform to the limitation. Also, according to a report made at a recent conference of officers of the Federal Reserve Bank Examination Departments, at least one large bank was buying quantities

9/30/57

-5-

of tax-free municipal securities under repurchase agreements and carrying them as securities; if this bank had to report the transactions as loans under the revised instructions, it presumably would have to pay a tax at the appropriate rate on the income.

Mr. Riefler expressed the view that repurchase and resale agreements of all varieties are essentially loan-borrowing transactions and should be reported that way. The problem, he said, had been getting out of hand more and more, and if the all-inclusive definition were not followed he felt that there would be increasing resort to various kinds of related transactions, with the result that nothing much would have been gained. It might be found, he said, that the statutory limitation of 100 per cent of capital and surplus pertaining to loans to one person on Government securities under repurchase agreements was unduly restrictive, in which event consideration would have to be given to recommending some change. He added that personally he was not convinced of the necessity for any statutory limitation in this respect.

Governor Robertson expressed agreement with the proposed revised reporting instructions recommended in Mr. Conkling's memorandum. He said that he would regard any procedure other than an all-inclusive reporting requirement as dangerous, for an exclusion of repurchase transactions carried out under other names would result in the growth of a variety of practices. While it might be that the statutory limitation

9/30/57

-6-

referred to by Mr. Riefler should at some time be changed, he would want to have full information on the situation and the need for liberalization before making any recommendation.

Thereupon, the proposals made in Mr. Conkling's memorandum were approved unanimously, with the understanding that the suggested letter to the Federal Reserve Banks would be sent if the Comptroller of the Currency sent similar instructions to national banks and that the Division of Bank Operations was authorized to make such minor changes in the phraseology of the letter to the Reserve Banks as might be agreed upon in discussion with the Comptroller's Office.

Messrs. Masters, Horbett, and Conkling then withdrew from the meeting.

Report of Commission on Government Security (Items 1 and 2).

There had been received at the Board's offices a copy of a memorandum addressed by the President under date of July 22, 1957, to the heads of executive departments and agencies concerning the final report of the Commission on Government Security which was submitted to the President and the Congress on June 21, 1957. The memorandum from the President requested that comments on the Commission's recommendations calling for "administrative action" be sent to the Chairman of the Interdepartmental Personnel Security Advisory Committee and that views concerning the "legislative recommendations" be sent to the Bureau of the Budget.

9/30/57

-7-

In a memorandum dated September 23, 1957, copies of which had been distributed to the members of the Board, Messrs. Johnson and Shay summarized the recommendations in the report appearing to be of principal interest to the Board; namely, those dealing with (1) security requirements and procedures for Government civilian employment and (2) the classification of security information. It was noted that only if some of the Commission's recommendations were to be adopted or enacted into law would consideration by the Board of appropriate changes in its regulations appear to become necessary. It was also noted that presumably the Board would not wish to resist following over-all Government programs in this area, even if they were not technically applicable to the Board. In the circumstances, it was suggested that it might be appropriate for the Board to send letters to the parties mentioned in the President's memorandum which would not undertake detailed discussion and would indicate in effect that the Board had no comments to offer. Submitted with the memorandum were drafts of suggested letters.

Following comments by Mr. Johnson and Mr. Shay concerning the principal recommendations in the report and the question of their applicability to the Board, the proposed letters were approved unanimously. Copies are attached hereto as Items 1 and 2, respectively.

Messrs. Johnson and Shay then withdrew from the meeting.

Mission to Puerto Rico (Item No. 3). With a summary memorandum dated September 23, 1957, the Puerto Rico Study Group, comprising Messrs.

9/30/57

-8-

Leonard (Chairman), Solomon, and Sammons, along with Messrs. Crosse and MacInnes of the Federal Reserve Bank of New York and Mr. Shaw of the Federal Reserve Bank of Atlanta, submitted to the Board its report on the recent study of certain phases of Puerto Rican banking matters undertaken at the request of Governor Munoz-Marin. The report contained chapters on cash availability, vault cash held by Island banks, check collection and clearing, par clearance, and relationships with the Federal Reserve System. With the accompanying memorandum, which included comments on a trip made by the Group to the Virgin Islands pursuant to instructions from the Board, there was submitted a draft of letter transmitting the report which might be sent to the Governor of Puerto Rico over the signature of Chairman Martin.

After commenting on the terms of reference of the assignment, Mr. Leonard said that he considered the work of the Group to have been fruitful. On the matter of cash availability, certain suggestions which were made by the Group for changes in the operations of the cash depot maintained by the U. S. Treasury with the San Juan Branch of The First National City Bank of New York had been adopted by the agent bank and should serve to improve the services to the Puerto Rican banks very materially. It appeared to the Group that these changes would make the services provided through the depot fully adequate, thus leaving for the most part only psychological factors to be taken into account in determining whether a Federal Reserve agency should be established

9/30/57

-9-

in Puerto Rico. The Treasury of course would be happy to have such an agency established for it would take the currency depot off their hands and relieve them of the expense.

So far as check collection procedures were concerned, Mr. Leonard said it was the view of the Group that the handling of checks within the Island was working well, and only minor suggestions were made. With respect to the mechanics of settlement, suggestions were offered which should make it possible for creditor banks to make use of their funds on the day of clearing rather than the following day. Developments with respect to par clearance had of course now become known to the Board.

With regard to the Federal Reserve agency, Mr. Leonard said that the case was advanced principally on two grounds - the need for improved service and prestige considerations. According to the argument, which was made principally by Governmental officials rather than by the banks, the establishment of such an agency would tie Puerto Rico closer to the mainland and tend to emphasize that Puerto Rico is a part of the United States. It would also be hoped that the resident management of the agency would help in advising local banks and in initiating certain studies which would have more standing than if made by the Puerto Ricans themselves.

The response, Mr. Leonard said, was in terms that on a service basis the Study Group did not feel that a case for an agency could be

9/30/57

-10-

made, while the remaining arguments touched on matters of national policy not within the province of the Group to determine. At the same time, he said, the Group recognized the desirability of bringing about a closer relationship between the Island and the Federal Reserve System, and a program was proposed under which each year two representatives of the System - one competent in economics and the other in bank operations - would visit Puerto Rico and review current problems and developments. In addition, the Board or the Federal Reserve Bank (New York) to which Puerto Rico is attached for collection purposes might from time to time publish articles bearing on the Puerto Rican situation.

Mr. Leonard went on to say that at first the Secretary of the Treasury of Puerto Rico appeared quite disappointed in the Study Group's findings with respect to an agency, but that later on the attitude of this official appeared to change as the report was outlined to him. Also, the President of the Government Development Bank, who had been most articulate in favor of an agency, expressed himself later as gratified with the constructive approach of the report.

Mr. Leonard then recommended on behalf of the Study Group that the report be sent to the Governor of Puerto Rico. The suggested transmittal letter, he pointed out, would include the statement that the Board concurred in the views expressed in the report on relationships between the Island and the Federal Reserve System.

9/30/57

-11-

Following a discussion on the basis of Mr. Leonard's comments, during which the Study Group was complimented for its work and product, the report was accepted and the proposed transmittal letter to the Governor of Puerto Rico was approved unanimously. A copy of the letter is attached hereto as Item No. 3.

All of the members of the staff except Messrs. Carpenter, Kenyon, and Fauver then withdrew from the meeting.

Appointment of director at Memphis Branch. In a memorandum dated September 25, 1957, copies of which had been sent to the members of the Board, Mr. Fauver transmitted biographical data concerning persons suggested by President Johns of the Federal Reserve Bank of St. Louis for appointment to the Board of Directors of the Memphis Branch to fill an existing vacancy.

Following a discussion, it was voted unanimously to request the Chairman of the St. Louis Bank to ascertain and advise whether Mr. Frank Lee Wesson, President of Wesson Farms, Inc., Victoria, Arkansas, would accept appointment, if tendered, for the unexpired portion of the term ending December 31, 1958, with the understanding that if he would accept, the appointment would be made. It was also agreed unanimously, if it should develop that Mr. Wesson was not available, to make similar inquiry and take similar action with respect to Mr. Oscar Melton, farmer and farm machinery dealer of Trumann, Arkansas.

9/30/57

-12-

Secretary's Note: Advice having been received that Mr. Wesson would accept the appointment, if tendered, there was sent to Mr. Wesson on September 30, 1957, a telegram advising him of his appointment. A copy is attached hereto as Item No. 4.

The meeting then adjourned.

Secretary's Notes: Governor Shepardson today approved on behalf of the Board the following items:

Memoranda from appropriate individuals concerned recommending actions affecting the Board's staff, as follows:

#### Appointments

Blanche C. King as Charwoman, Division of Administrative Services, with basic annual salary at the rate of \$2,600, effective the date she assumes her duties.

Lyla E. Szillat as Key Punch Operator, Division of Administrative Services, with basic annual salary at the rate of \$3,685, effective the date she assumes her duties.

#### Salary increases

Vivian C. Howard, from \$3,670 to \$4,525 per annum, with a change in title from Statistical Assistant to Economist, Division of Research and Statistics, effective October 6, 1957.

John N. Kiley, Jr., Technical Assistant, Division of Bank Operations, from \$8,645 to \$8,990 per annum, effective October 6, 1957.

#### Transfer

Anne T. Roberson from the position of Clerk-Stenographer in the Division of Personnel Administration to the position of Stenographer in the Legal Division, with no change in her present basic salary of \$3,670 per annum, effective September 30, 1957.

9/30/57

-13-

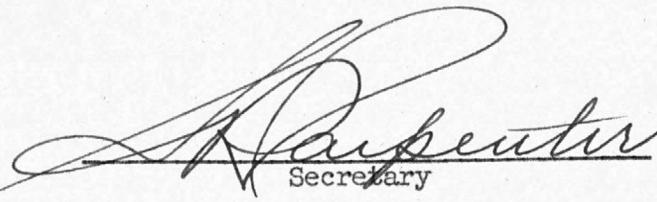
Notice of retirement

Alfred K. Cherry, Legislative Counsel, effective January 1, 1958.

Advancement of additional sick leave

M. Callie Wickline, Nurse, Division of Personnel Administration, for a period not to exceed 15 days from September 27, 1957.

Letter to Stanley Frank Petrone, Falls Church, Virginia, regarding his application to operate the barber shop in the Federal Reserve Building. A copy of the letter is attached hereto as Item No. 5.

  
Secretary



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 1  
9/30/57

OFFICE OF THE CHAIRMAN

September 30, 1957

Mr. William F. Tompkins, Chairman,  
Personnel Security Advisory Committee,  
Department of Justice,  
Washington, D. C.

Dear Mr. Tompkins:

With respect to your request for comments, not later than October 1, on those portions of the Report of the Commission on Government Security directly relating to the Board's present operations, the Sections on the Federal Civilian Loyalty and the Document Classification programs have been studied and analyzed. The Board has no adverse criticisms to offer regarding the programs proposed in these Sections.

The Board, of course, will be guided by any changes in procedures and regulations resulting from the Commission's recommendations and will continue to cooperate in every way possible in the Security Program.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

BOARD OF GOVERNORS  
OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

2755

Item No. 2

9/30/57

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



September 30, 1957

Mr. Roger W. Jones,  
Assistant Director,  
Legislative Reference,  
Bureau of the Budget,  
Washington 25, D. C.

Dear Mr. Jones:

Reference is made to the communication addressed to the Heads of Executive Departments and Agencies by the President on July 22, 1957, with respect to legislative recommendations made by the Commission on Government Security.

The Board has no views to express at this time with respect to the recommended legislation referred to.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,  
Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 3  
9/30/57

OFFICE OF THE CHAIRMAN

September 30, 1957

My dear Governor:

With this letter I am sending you a copy of the report prepared by the Federal Reserve Group which, at your suggestion, recently made a study of certain broad problems pertaining to currency and check movements within the Commonwealth and between Puerto Rico and the Continental United States. In accordance with a request made by Dr. Pico, 100 copies of the report are being forwarded to him for such use as he cares to make of them.

The Board of Governors concurs in the views expressed in the section, "Relationships with the Federal Reserve System," pages 39-43. The program therein outlined could, we believe, prove to be of real assistance in the development of closer relationships between the Island and the Federal Reserve System.

The Board and the Federal Reserve Banks of New York and Atlanta, from which the members of the Study Group were drawn, are pleased to have been able to cooperate with the Commonwealth Government and the banks in Puerto Rico in this study.

With all good wishes, I am

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure

The Honorable Luis Munoz Marin,  
Governor of Puerto Rico,  
La Fortaleza,  
San Juan, Puerto Rico.

T E L E G R A M  
LEASED WIRE SERVICEBOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTONItem No. 4  
9/30/57

CONFIDENTIAL (F.R.)

Government rate

CONFIDENTIAL (F.R.)

September 30, 1957

Mr. Lee Wesson,  
Victoria, Mississippi County, Arkansas.

Board of Governors has appointed you director of Memphis Branch of Federal Reserve Bank of St. Louis for remainder of term expiring December 31, 1958. Your acceptance by collect telegram would be appreciated.

It is understood that you are not director of any bank and do not hold public or political office. Should situation change in these respects during your tenure please inform Chairman St. Louis Bank.

We should like to know how you wish your name and principal business affiliation to be shown in Board's announcement and publications.

(Signed) S. R. Carpenter  
S. R. Carpenter,  
Secretary, Board of Governors.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 5  
9/30/57

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 30, 1957



Mr. Stanley Frank Petrone,  
1318 Annandale Road,  
Falls Church, Virginia.

Dear Sir:

The Board of Governors of the Federal Reserve System has considered your application to operate the barber shop in its building and, subject to the completion of a satisfactory investigation by the Board's personnel office and the procurement by you of a District of Columbia barber's license no later than November 1, 1957, hereby agrees to permit you to do so under the following conditions:

The barber shop is to be operated primarily for the convenience of employees of the Board of Governors of the Federal Reserve System and not for the general public. Prices to be charged for services and the hours of service shall be mutually agreed upon between you and the Board's representative and shall be posted in the shop where they can be seen by patrons.

The Board will furnish the permanent equipment such as barber chairs, mirrors, cabinets, wash bowls, side chairs, clothes hooks, cash register and other such equipment as may in its judgment be required. All other necessary equipment, including tools, linen, soaps, supplies and other similar items, will be furnished by you.

Ten per cent of the gross receipts from operations and sales will be paid to the Board by you as a rental or concession fee. An accounting of receipts and payment of rental fee shall be made to the Board weekly.

You will furnish as many barbers, who shall be competent and satisfactory to the Board, as may be required to handle the business adequately, and you will have at least one qualified barber available for duty in the barber shop at all times during the regular hours of service except for absences authorized or approved by the Board's representative. You shall employ and have full supervision over one bootblack who shall be competent and satisfactory to the Board. You shall be permitted to sell articles and supplies of a nature sold in barber shops at reasonable prices.

The cleaning of the barber shop, other than the washing of windows, waxing of the linoleum floor, and the polishing of window bronze, shall be performed by your employees.

Mr. Stanley Frank Petrone

-2-

You will be responsible for the payment of all expenses, including the salaries of your employees and laundry charges in connection with the operation of the barber shop.

You will pay the cost of the telephone service in the barber shop as shown by bills submitted to you monthly by the Board and will also pay for servicing the cash register.

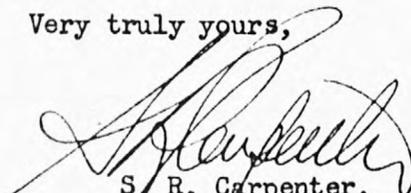
Your relationship with the Board will be that of an independent contractor, and you will save and hold the Board, its members, officers and employees harmless from all claims for injuries to any person and damages to any property arising out of or resulting in any way from the performance of this agreement. You will obtain and keep in force at all times a public liability insurance policy covering the barber shop with limits of \$50,000/\$300,000. You will obtain and keep in force, when necessary, a workmen's compensation insurance policy. Both such policies shall be satisfactory to the Board's representative. You will furnish the Board with certificates showing that such insurance has been effected.

You and any other barber or barbers operating in the barber shop shall be licensed to do barber work in accordance with the laws, rules and regulations of the Government of the District of Columbia and you shall be subjected to all the rules and regulations of the District of Columbia Health Department for the maintenance of a clean and sanitary shop. You shall also pay all fees and taxes required by the Government of the District of Columbia for permits, licenses, etc., in connection with the operation of this barber shop.

This agreement may be terminated at your request or the request of the Board's representative on thirty days' written notice.

Kindly sign and return the enclosed copy of this letter if you agree to assume the responsibility of operating the barber shop in the Federal Reserve building under the conditions stated above and advise the date you will commence business.

Very truly yours,



S. R. Carpenter,  
Secretary.

Enclosure