

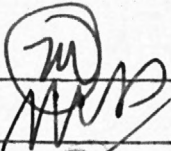

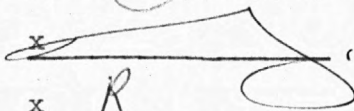

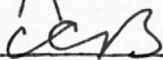
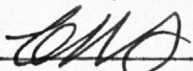
To: Members of the Board

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 October 1, 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 approve the minutes.~~ If you were not present please initial in column B below to indicate that you have seen the minutes.

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

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, October 1, 1957, at 11:10 a.m.

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

Mr. Carpenter, Secretary
 Mr. Kenyon, Assistant Secretary

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

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

Before this meeting the Presidents had submitted a memorandum listing the topics that they would like to discuss with the Board. The topics, the statement of the Presidents with respect to each, and the discussion at this meeting were as follows:

1. Safekeeping of securities by Federal Reserve Banks. The practices of the Reserve Banks in holding securities in safekeeping for member banks and others vary to a considerable extent in the different districts, occasioned by different needs and conditions. It was agreed, therefore, that before responding to the requests in the Board's letters of September 6 and 19 for the views of the Conference with respect to the use of these facilities, it would be desirable to review the practices which are now being followed by the individual banks and the reasons therefor. The matter was referred to the Committee on Miscellaneous Operations for review and report to the Conference.

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Following comments by Chairman Leedy in amplification of the above statement, Mr. Robertson said he was pleased to learn that the Presidents' Conference was going to review the safekeeping function in the manner indicated. At this time particularly, he felt that the System should be sure of its ability to defend any of its functions on the basis of their being justified and warranted in the light of pertinent statutory authority or existing conditions. He thought that perhaps some of these functions had grown little by little and that they should be reviewed thoroughly in order that the System might find its position completely defensible in the face of criticisms.

2. Retirement or retention in employment of employees prior to effective date of changes in retirement benefits effective September 1, 1957. The Conference had before it the Board's letter of September 16, 1957, concerning the retirement or retention of employees in the few months prior to the effective date of the increased retirement benefits on September 1, 1957. In line with the Board's request, the subject was discussed by the Presidents. In the light of that discussion, it was understood that each Reserve Bank would review the cases of retired employees to see what if any action needed to be taken because of the experience of all of the Reserve Banks, and will thereafter, as promptly as possible, inform the Board of the results of its review and what if any further action is recommended.

In summarizing the discussion of this matter by the Presidents' Conference, Chairman Leedy said it developed that the practices at the respective Banks had not been entirely uniform, one complicating factor being that some Banks follow a continuing policy of retaining employees for a period up to 90 days after the employees reach retirement age, while other Banks do not follow such a policy. Where such a policy was in effect, with the knowledge of the Bank's employees,

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this appeared quite obviously to have had some effect on the decisions made when the opportunity was given to employees to remain in service in view of the prospective amendments to the Retirement System. In the circumstances, he said, the individual Banks were going to review the recent cases involving regular service retirements, in line with the Board's suggestion, and they would report to the Board what, if anything, they felt should be done in respect to those cases.

Chairman Leedy then said that, speaking solely for himself, it was his feeling that this matter could not be handled satisfactorily on a case-by-case basis. It seemed to him that in order to provide fair and equitable treatment to everyone concerned, there should be some cut-off date for adjustments of retirement allowances which would be related to attainment of retirement age, and that eligibility for increased benefits should not be determined on the basis of whether a particular employee continued in service to the date that the changes in the Retirement System went into effect. With 36 Federal Reserve Banks and branches in operation and somewhat different explanations to employees necessarily having been made from one office to another, it would appear very difficult to say on a case-by-case basis who should now be considered eligible for the increased benefits and who should not. Since benefits under the Retirement System are fixed as of the date that an employee reaches age 65, he felt that if anything at all was to be done to adjust retirement allowances, it should be done on the basis of whether certain employees had attained age 65 as of a given date. For example, if it should be decided that employees who reached age 65 after April 1, 1957, would be eligible, this would provide a rule

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that would operate equitably to all concerned.

Chairman Leedy also referred to the need for caution in order to avoid jeopardizing the Retirement System's tax status, pointing out that one of the bases is uniformity of treatment for all concerned. It occurred to him that action on a case-by-case basis might constitute a departure from that principle.

Mr. Johns, presenting the point of view held by the majority of the Presidents, said that a procedure of fixing an arbitrary cut-off date after which all employees reaching age 65 would be entitled to the increased benefits seemed to him to leave out of account that there might have been, in fact undoubtedly were, some cases in which persons were fully advised concerning the possible revision of retirement benefits and yet decided to retire and forego those benefits. Whether the retirement allowance should be supplemented in such circumstances seemed to him questionable. On the other hand, there might have been cases in which employees were not adequately informed of the prospective amendments to the Retirement System and the possibility of protecting their rights to the increased benefits. In these circumstances, he considered it appropriate for all of the cases to be reviewed and decided upon by the individual Reserve Banks concerned in the light of the facts involved.

In further comments, Mr. Johns brought out that if it should be decided to make any adjustments of retirement allowances through the Retirement System, it apparently would be necessary for the Board of Trustees to take action which would make this legally permissible.

In response to a question, Mr. Leedy said that the points which he

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raised had not been thoroughly studied from the standpoint of the possible reaction of the Internal Revenue Service and that it would seem desirable to obtain an opinion from Counsel for the Retirement System before any adjustments in retirement allowances were made. In his opinion, however, actions on a case-by-case basis might be more difficult from a tax standpoint than adjustments made on the basis of an arbitrary cut-off date.

Mr. Vardaman indicated that he was inclined to agree in principle with the point of view expressed by Mr. Leedy, primarily because he considered the retirement benefit to be an earned and accrued right and also because he did not see how it would be possible to avoid some element of prejudice in reviewing individual cases, regardless of the effort made to avoid such prejudice.

In a discussion which ensued concerning the positions taken by Mr. Leedy and by Mr. Johns, Mr. Balderston inquired whether the Presidents had given consideration to the possibility of adjusting allowances outside of the Retirement System if cases were found where some element of unfairness appeared to have been present. Mr. Leedy responded in the negative, indicating that the discussion of the Presidents was on the basis reflected in the statement which they had submitted on this topic.

At the conclusion of the discussion, Chairman Martin stated that the Board had considered at length the various aspects of the problem and that it had been inclined to think that the establishment of a cut-off date might be almost essential to the preservation of the Retirement System's tax status. In reply to a question, he said the Board had

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felt that if a cut-off date were decided upon, April 1, 1957, might be appropriate.

Chairman Martin also said that in his own thinking the adjustment of individual cases on the basis of an "exercise of conscience" might involve severe difficulties from the standpoint of the Internal Revenue Service.

After Mr. Johns commented that he would not differ from that opinion, Chairman Martin said that the Board would like to have the Reserve Banks think through on the matter in the light of the contemplated review of individual cases and then provide the Board the benefit of their views.

3. Statement of policy with respect to Reserve Bank expenditures for membership dues. In accordance with the Board's request, the statement of policy with respect to Reserve Bank expenditures for membership dues, which was approved by the Presidents' Conference and presented to the Board at its request at the joint meeting on June 18, 1957, is placed on the agenda for further discussion.

Chairman Martin began the discussion of this topic by explaining the importance attached by the Board, from the standpoint of the principles involved, to Reserve Bank expenditures for membership dues. He said that the Board desired to be reasonable, but that there must be recognized the problem involved in attempting to defend against possible criticisms arising out of this kind of payments on the part of the Banks. All of this, he said, led the Board to feel that it would be preferable if certain of these payments were not made by the Banks. He went on to say that the Board likewise had given consideration to the problem of gratuities paid to parties outside the Reserve

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Banks and had in fact nearly come to the point of adopting a blanket position, a step which was decided against in recognition of the operating difficulties that might be created for the Banks in some instances if such payments were discontinued abruptly. In summary, he said, the Board felt that expenditures in this whole area deserved thoughtful and serious consideration with a view to reaching some policy position that would be fully defensible.

Mr. Vardaman supplemented these remarks by making certain personal observations with regard to expenditures permissible for Government agencies and the possibility that criticism of some relatively minor expenditure by a Reserve Bank would, because of the nature of the item, result in disproportionately harmful consequences for the System.

Mr. Johns inquired whether the Board had in mind any expenditures other than those referred to by Chairman Martin in his remarks, and the response was made that memberships in professional associations had come under discussion, it having been observed by the Board that the standards contained in the statement of policy on membership dues which was proposed by the Presidents' Conference at the joint meeting with the Board in June 1957 were somewhat more liberal and provided more latitude for the exercise of discretion than the standards proposed by the Board following the meeting of the Conference of Chairmen of the Federal Reserve Banks in December 1956.

Mr. Allen, who served as Chairman of the Committee of the Presidents' Conference which formulated the suggested statement of policy, indicated that the proposal represented an effort to accommodate the views expressed by the various Reserve Bank Chairmen in correspondence

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with the Board after they had received the Board's letter written in December 1956. He said that the Presidents recognized the problems referred to at this meeting and that whatever the Board wished to do in this matter would be agreeable. In other words, if the Board was concerned and wanted to change the statement, he felt safe in saying that none of the Presidents would object.

Messrs. Hayes and Leedy supported this statement by Mr. Allen, even though they were inclined to feel personally that the proposed outline of policy would prove to be a workable arrangement. Mr. Leedy also touched upon the point that the proposal would have permitted such advantages as might be derived from delegation of authority and the granting of some discretionary latitude to the boards of directors of the respective Reserve Banks.

On the latter point, Chairman Martin said it was the view of the Board of Governors that the advantages which might be inherent in delegation of authority would be more than offset by the possibility of criticism being leveled at the System. He continued by saying that it was not the Board's intention in raising the subject to be hard-boiled, but that the Board did want to call attention to the matter, including the problem of gratuities to parties outside the Banks, so that the Presidents would know of its views and all concerned could be thinking of the best solution.

In further discussion, members of the Presidents' Conference expressed the hope that it might be possible to provide somewhat more flexibility in respect to memberships in professional associations than in other areas because of the benefits derived by the Banks from such

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affiliations. They also cited the problem created by the expense payment practices of commercial banks and other competitive institutions in the labor market.

At the conclusion of the discussion, Chairman Martin again stressed the importance of this type of expenditure in the eyes of the Board. He said that the Board would want to ask for a further discussion of the subject at the next meeting of the Chairmen's Conference and that in the meantime the Board would be appreciative if the Presidents would devote further thought to the matter, including the development of an appropriate procedure for reporting membership dues and contributions.

4. Studies of the Banking Structure. Mr. Williams, Chairman of the Special Committee on Studies of the Banking Structure, reported to the Conference that its Subcommittee had completed and submitted its report covering phase one of the contemplated studies, summarizing the papers of the 33 economists who participated in that phase of the work. A copy of the report will be distributed to the Board and to each Reserve Bank, and to each of the economists who participated in the study. A transcript prepared covering a meeting held with the economists who contributed to the study will be destroyed. With this completion of the first phase of the study, Mr. Williams said that it was planned to proceed to the second phase, which has to do with recent trends in bank mergers and growth of branch banking. The mechanism for proceeding with this second phase has not been set up, but Mr. Williams said that the area to be reviewed traversed the Research, Examination, and Legal functions of the Banks, and he expressed the view that all of these groups should be represented in the body named to conduct the second phase of the project.

Mr. Williams directed his comments on this topic mainly to the reasons which underlay the decision to destroy the transcript covering

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the meeting of the outside economists who contributed to the first phase of the contemplated studies.

Mr. Robertson, who had attended the meeting in question, stated that he agreed with the decision.

After Mr. Robertson spoke of the excellence of the report, Chairman Martin said that the Board might wish to discuss it further with the Presidents after the members had had an opportunity to review the document.

5. Emergency operations. Mr. Williams, as Chairman of the Special Committee on Emergency Operations, reported briefly on a meeting held in New York on Thursday, September 26, of the commercial banking committees working on emergency preparedness, Governor Robertson, and other System representatives. At his suggestion Mr. Leonard of the Board's Division of Bank Operations was invited to advise the Conference of recent developments in the field of emergency operations. Mr. Leonard gave the Conference such a report in some detail. Following a discussion of the progress of emergency plans in the Reserve Banks, the Presidents agreed that the Reserve Banks should proceed with their internal planning for decentralization of certain cash and check handling operations, and selection of agent banks to conduct the decentralized operations. However, pending determination of the basic policy questions involved, it was understood that actual negotiations with commercial banks aimed at completing the agency relationships would be deferred.

Mr. Williams stated that, as suggested by the above statement, the emergency preparedness program was now progressing to a point where the commercial banking committees should very shortly be undertaking a public relations program to interest the banking fraternity in the program and the Federal Reserve Banks should be getting in touch with agent banks selected to conduct the decentralized cash and check handling operations in the event of an emergency. From the standpoint of

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the Reserve Banks, he said, these developments emphasized the desirability of reaching basic over-all policy decisions on matters in the financial and economic area such as indemnification, since it would be difficult to proceed in more than general terms in the absence of such decisions.

At the suggestion of Mr. Williams, Mr. Robertson then summarized the discussion at the meeting of the commercial banking committees on September 26 concerning the payment of expenses of such committees, including the cost incident to printing and distributing the emergency preparedness documents resulting from their work. His report made it clear that the commercial banks were averse to paying these expenses and that the committees might be expected to approach the Board again on this matter.

In this connection, Chairman Martin pointed out that by virtue of action taken at the time when the program was initiated, the Board was committed to pay these expenses if they could not be met from other sources.

The discussion concluded with comments by Chairman Martin regarding steps being taken in an effort to reach mutual interagency agreement on the policy questions to which Mr. Williams had referred.

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

- a. The Conference approved a report of the Subcommittee on Cash, Leased Wire, and Sundry Operations, dated

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July 9, 1957, recommending adoption of a simplified formula for applying test words to wire transfers of funds and securities and amendment of Federal Reserve Loose-Leaf Service (Item #3200) to record the recommended changes.

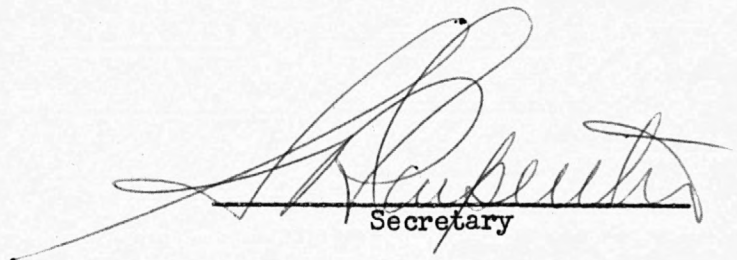
- b. Mr. Leach, Chairman of the Committee on Fiscal Agency Operations, informed the Conference that the question of the rental rate charged government agencies for use of bank space, which was the subject of discussion at the June meeting of the Conference, is under consideration by the Subcommittee on Fiscal Agency Operations and the Subcommittee on Accounting, and he expects that the studies will be completed in time to permit a report to be rendered at the next session of the Conference.
- c. In response to a question based on a practice followed in the Cleveland Federal Reserve Bank concerning handling of CPD security transactions to brokers against payment, it was the view of the Conference that the acceptance of Federal funds checks drawn by member banks in payment for securities involved in such transfers did not violate the instructions in Board's letter S-1615 of December 28, 1956, relating to telegraphic transfers of funds.
- d. At the suggestion of the Committee on Bank Supervision, the question of use of Section 30 of the Banking Act of 1933 as an instrument of bank supervision, which was included on the agenda for the current Conference, was carried over to the next meeting of the Conference.
- e. The Post Office Department has suggested the desirability of reviewing material being submitted in support of claims for reimbursement of expenses incident to handling deposits of surplus funds by postmasters. The Conference approved a recommendation of Mr. Leach that the Subcommittee on Fiscal Agency Operations and the Subcommittee on Accounting be authorized to work with representatives of the Post Office Department with the view to simplifying the preparation and submission of these claims.

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- f. In response to a request originating with the Treasury Department, the Conference authorized the Committee on Fiscal Agency Operations to work with Treasury representatives with the view to holding a meeting of representatives of the Treasury and of the Fiscal Agency Departments of the Reserve Banks, for the purpose of considering and reviewing contemplated changes in Fiscal Agency activities of the Reserve Banks.
- g. The Conference approved the holding of a meeting of the Personnel officers of the twelve Reserve Banks, to be held sometime in the spring of 1958.
- h. In response to a question placed before the Conference by President Bryan of the Atlanta Reserve Bank, the Presidents agreed that the standby TWX equipment installed in the Reserve Banks should be reserved for emergency use and should not be used for conducting normal telegraphic communications with member banks. It was suggested that where the need for direct communication facilities with member banks existed, consideration be given to installation of additional TWX private wire facilities for this purpose.

There was no discussion with respect to these items which, as the topic indicated, were reported as a matter of information.

The meeting then adjourned.


 Secretary