

Minutes for March 7, 1958

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"/> <u>MM</u>	_____
Gov. Szymczak	<input checked="" type="checkbox"/> <u>MS</u>	_____
Gov. Vardaman <u>1/</u>	_____	<input checked="" type="checkbox"/> _____
Gov. Mills	<input checked="" type="checkbox"/> _____	_____
Gov. Robertson	_____	<input checked="" type="checkbox"/> <u>R</u>
Gov. Balderston	<input checked="" type="checkbox"/> <u>CCB</u>	_____
Gov. Shepardson	<input checked="" type="checkbox"/> <u>SS</u>	_____

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 the Board of Governors of the Federal Reserve System  
on Friday, March 7, 1958. 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. Shepardson

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Riefler, Assistant to the Chairman  
Mr. Thomas, Economic Adviser to the Board  
Mr. Leonard, Director, Division of Bank Operations  
Mr. Young, Director, Division of Research and  
Statistics  
Mr. Hackley, General Counsel  
Mr. Molony, Special Assistant to the Board  
Mr. Shay, Legislative Counsel  
Mr. Noyes, Adviser, Division of Research and  
Statistics  
Mr. Solomon, Assistant General Counsel

Reserve requirements. In the light of yesterday's discussion with the Committee on Legal Reserve Requirements of the American Bankers Association, there had been distributed to the members of the Board, with a memorandum from the Legal Division dated March 7, a draft revision of the Board's reserve requirements bill which it appeared might be acceptable to the Association. The revised draft incorporated the Committee's suggestion for reduction of the present minimum and maximum reserve percentages applicable to central reserve city banks to the same as those applicable to reserve city banks. Thus, while the classification of central reserve cities would be retained and while it would still be possible for the Board to prescribe higher percentages for central reserve than for reserve

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cities, within a range of 10 to 20 per cent, it would also be possible to move in the direction of greater uniformity. In other words, while the change would permit the retention of whatever practical advantages there may be in the present classifications, it could accomplish much the same objectives as the Committee's alternative suggestion for the abolishment of central reserve cities.

The revised draft bill also eliminated the words "and volume" contained in paragraph 2 of the previous draft, which would mean that reduced reserves could not be permitted by the Board for any member bank solely because of the bank's size. However, size might very well affect the "character" of a bank's business. In addition, the new draft bill had as its title: "To amend section 19 of the Federal Reserve Act ..... in order to permit a more equitable application and lower levels of reserve requirements." Finally, in order to meet a technical question which had been raised by one of the Reserve Bank Presidents, the provisions on vault cash were further revised to make clearer the authority of the Board to permit by regulation cash in transit to or from Federal Reserve Banks to be counted as part of required reserves.

Comments made at this meeting by members of the Board and the staff stressed the fact that the Committee on Legal Reserve Requirements had moved a substantial distance toward accepting the general approach embodied in the Board's legislative proposal. It was felt that this pointed strongly to the possibility of reaching a position that would be mutually agreeable to the Board and the American Bankers Association.

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The discussion then turned to the preamble contained in the revised draft bill. Although it was recognized that the inclusion in the bill itself of a general indication of intent would probably improve the chances of having the proposal accepted by the American Bankers Association and that appropriate language, if it could be developed, would have some merit in indicating the purposes of the legislation, the tentative conclusion of a majority of the Board was that it would be preferable through a statement and testimony on the bill to explain the purposes of the legislation so that they would be reflected in the legislative history.

Reactions were mixed with regard to the provisions of the revised draft bill which would in effect retain the central reserve city classification but establish the same percentage limits for that classification as for reserve city banks. Some of those who spoke on this point expressed the view that retention of the central reserve city classification would reduce administrative difficulties in a period of transition and at the same time retain in the Board a certain latitude of action to guard against contingencies. However, among those who favored retention of the central reserve city classification there were some who questioned the advisability of setting the same maximum and minimum limits for both central reserve and reserve city banks. They suggested, therefore, retaining the present lower limit of 13 per cent for central reserve city banks.

Others, principally Governor Balderston, felt that the administrative problems of the Board would be increased by retaining the three classifications

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of banks if the actual reserve requirements to be prescribed for the three classes of banks were to be different and the Board attempted to establish lines of distinction between central reserve cities and reserve cities. Governor Balderston also suggested that any decision to retain three classifications of cities but to abolish in fact the reserve distinctions between central reserve and reserve city banks should be brought clearly to the attention of the Congress so that there might be no misunderstanding about the course intended to be followed, for otherwise the Congress might conclude that this constituted an attempt to circumvent the statutory intent.

Another view, expressed by Governor Szymczak, was to the effect that the prospect of obtaining legislation would be enhanced by suggesting as few changes as possible in the existing statutory requirements. This line of reasoning suggested not requesting any legislative changes where it was possible to work in the desired direction under the present law, at least until experience had been gained in the adjustment of reserve requirements and the need for amendatory language became apparent.

Certain possible alternative proposals then were mentioned, following which Governor Mills urged deviating no further from the Board's legislative proposal which was submitted to the Committee on Legal Reserve Requirements than appeared necessary to accommodate those suggestions of the Committee that the Board considered acceptable. Additional changes, he felt, would only serve to confuse the issues and lessen the chances for reaching a basis of mutual agreement. He pointed out that the revised draft bill now

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before the Board would be recognized by the Committee as conforming very closely to the suggestions made during the meeting of the Board and the Committee yesterday.

At the conclusion of the discussion, Chairman Martin suggested that the Board continue to think on the subject and that there be further discussion at the meeting on Monday, March 10. He expressed the hope that a full Board could be available before the Board's views became crystallized. Meanwhile, he said, the staff could be going forward with a draft of letter which would transmit a proposal for reserve requirement legislation to the appropriate Congressional committees.

Messrs. Riefler, Thomas, Leonard, Molony, and Shay then withdrew and Messrs. Masters, Director, Division of Examinations, and Hexter, Assistant General Counsel, entered the room.

Items circulated to the Board. The following items, which had been circulated to the members of the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

Item No.

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| Letter to the Presidents of all Federal Reserve Banks suggesting that they include in their statements at meetings of the Federal Open Market Committee reference to comments by directors of the respective Banks at directors' meetings. | 1 |
| Letter to The First National City Bank of New York approving a change in the location of a branch in Caracas, Venezuela. (For transmittal through the Federal Reserve Bank of New York)  | 2 |

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	<u>Item No.</u>
Letter to the Federal Reserve Bank of Richmond authorizing expenditures for improving the Bank's air conditioning system.	3
Letters to Counsel for the Guaranty Trust Company of New York and to the Comptroller of the Currency expressing the opinion that footnote 11a to section 10(c) of Regulation F should remain in the Regulation in its present form.	4 and 5

Prior to approval of the foregoing Regulation F item, Messrs. Masters and Hexter discussed at the request of Governor Mills the background of the request by the Guaranty Trust Company that the footnote be eliminated and the position taken by the Internal Revenue Service that the footnote was proper and should be retained. They reported that it was the intention of the Service to propose changes in the Internal Revenue Code which would meet the tax problem that had given rise to the request. Thus, although the documentary stamp taxes already accrued would have to be paid, the problem would be resolved for the future.

Messrs. Masters, Hackley, Solomon, and Hexter then withdrew from the meeting.

Suggestion for meeting of Chairmen's Conference. In a memorandum dated March 6, 1958, which had been distributed to the other members of the Board, Governor Shepardson presented the question of arranging this spring a meeting of the Conference of Chairmen of the Federal Reserve Banks, to which the Chairmen of Reserve Bank branches also would be invited. As indicated in an attached memorandum from Mr. Sherman, dated March 5, 1958, the Executive Committee of the Conference had recommended that such

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a meeting be held. However, a poll of the entire group of Chairmen showed that seven expressed a negative opinion or were noncommittal.

In view of the division of opinion among the Chairmen and in view of the prospective heavy schedule of Board commitments during the spring, it was agreed that it would seem preferable not to arrange the proposed meeting. It was understood, therefore, that Governor Shepardson would discuss the matter further in this vein with the appropriate officers of the Chairmen's Conference.

Mr. Sherman then withdrew from the meeting.

Item circulated to the Board. The Board approved unanimously a letter to the Federal Reserve Bank of New York (attached Item No. 6) approving the payment of salary to Joseph A. Hunter, General Clerk, at a rate below the minimum of his present grade for a period not to exceed six months from March 1, 1958.

Visit by officials of Home Loan Bank System. Governor Shepardson reported that question had been raised informally about a possible visit to the Federal Reserve Building on May 1 or 2, 1958, by the members of the Home Loan Bank Board and the Presidents of the Federal Home Loan Banks who would be holding a conference in Washington at that time.

It was agreed unanimously that an invitation should be extended to this group to visit the building on one of the dates mentioned for luncheon with the available members of the Board and a chart show by the research staff.



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Call report. The Secretary reported that a letter had been received under date of March 5, 1958, from the Deputy Comptroller of the Currency advising that a call would be made upon national banks on March 10, 1958, for reports of condition as of the close of business March 4, 1958. He said that, in accordance with the usual custom, a telegram was sent on March 6 to the Presidents of the Federal Reserve Banks requesting that a similar call be made upon State member banks.

The action taken in sending the telegram was ratified by unanimous vote.

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

Recruitment of professional staff. The Secretary was informed later by Governor Shepardson that during the executive session the Board approved the recommendation contained in his (Governor Shepardson's) memorandum dated March 7, 1958, that the Division of Research and Statistics be authorized to recruit for a reserve of two economists in addition to existing vacancies, such reserves to be carried on a dual occupancy basis until anticipated vacancies develop, and to offer entrance salaries up to \$8,000 per annum for appropriately qualified prospects.

The meeting then adjourned.

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Secretary's Notes: Governor Shepardson today approved on behalf of the Board a letter to the Chairman of the Committee on Bank and Public Relations of the Presidents' Conference designating Charles Molony, Special Assistant to the Board, to serve as an associate of the Subcommittee on Bank and Public Relations for the coming year. A copy is attached as Item No. 7.

Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson also approved today on behalf of the Board increases in the basic annual salaries of the following persons on the Board's staff, effective March 9, 1958:

Yves Maroni, Economist in the Division of International Finance, from \$8,430 to \$8,990.

Esmond C. Langley, from \$3,200 to \$3,300, with a change of title from Messenger to Assistant Head Messenger, Division of Administrative Services.

During the day a telegram was received from the Federal Reserve Bank of Atlanta advising that the directors of that Bank had established, subject to approval by the Board of Governors, rates of 2-1/4 per cent on discounts and advances under sections 13 and 13a of the Federal Reserve Act, 2-3/4 per cent on section 10(b) advances, 3-1/2 per cent on advances under the last paragraph of section 13, and other rates in the Bank's existing schedule without change. On commitments to financing institutions under section 13b, the directors established the provision that no commitment should be given on a loan on which the borrower is charged more than 5-1/2 per cent. Pursuant to the action taken by the Board on March 6, 1958, the Secretary advised the Atlanta Bank by telegram of approval of these rates, effective March 10, 1958. All Federal Reserve Banks and branches were notified of this action by telegram, a press statement was issued in the usual form, and arrangements were made for publication of a notice in the Federal Register.

  
Secretary

Item No. 1  
3/7/58

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

S-1649

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

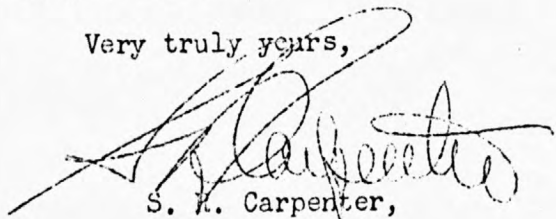
March 7, 1958.

Dear Sir:

This letter refers to the discussion at the joint meeting of the Board of Governors and the Presidents of the Federal Reserve Banks with respect to the "straws in the wind" comments by directors of the Federal Reserve Banks at their directors' meetings which might indicate that the current over-all economic situation at any particular time is different from what the available statistics show it to be. It will be recalled that the Presidents expressed the view at that meeting that the preferable procedure for passing on such comments to the Board of Governors would be for the Presidents to include a reference to the comments in their statements at the meetings of the Federal Open Market Committee.

The Board of Governors will appreciate it if the Presidents will follow this new procedure. As stated in the Board's letter of January 23, 1958, members of the Board have been interested in the comments that have been submitted in accordance with the existing procedure and believe they are helpful to have.

Very truly yours,

  
S. R. Carpenter,  
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 2  
3/7/58

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 7, 1958



The First National City Bank of New York,  
55 Wall Street,  
New York 15, New York.

Gentlemen:

Reference is made to your letters of February 17 and 25, 1958, transmitted through the Federal Reserve Bank of New York, regarding the proposed change in location of your Caracas Branch from Esquina Santa Capilla, Calle Oeste 1 y Norte 2, Caracas, Venezuela, to Carmelitas a Altagracia 25 and 27, Caracas. On the basis of the information furnished, the Board of Governors approves the change in location.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the branch is moved to the new location and opened for business. It is understood, of course, that the new location approved will not be changed without the prior approval of the Board of Governors.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,  
Secretary.

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

Item No. 3  
3/7/58

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 7, 1958



Mr. Hugh Leach, President,  
Federal Reserve Bank of Richmond,  
Richmond 13, Virginia.

Dear Mr. Leach:

The Board interposes no objection to the program for improving the air conditioning and electrical systems in the Head Office buildings as outlined in your letter of February 20, 1958.

The Board authorizes an expenditure of not to exceed \$550,000 for that program, the amount approved by the Board of Directors.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,  
Secretary.

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

Item No. 4  
3/7/58

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 7, 1958



Charles H. Willard, Esq.,  
Davis Polk Wardwell Sunderland & Kiendl,  
15 Broad Street,  
New York 5, New York.

Dear Mr. Willard:

This is with further reference to your letter of June 3, 1957, regarding footnote 11a to section 10(c) of Federal Reserve Regulation F, which relates to the tax status of collective investments of employee-benefit trusts.

On February 7, 1958, there was sent to you a copy of a letter on this subject that the Board had received from the Commissioner of Internal Revenue, dated February 5. In view of the Commissioner's conclusion that "the rule stated in footnote 11a is correct and, therefore, should be retained in Regulation F", the Board has decided against any change in Regulation F with respect to this matter. For the same reason, the Board has decided that it would not be justified in making interpretative statements of the nature requested in the last paragraph of your letter of June 3.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,  
Secretary.

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

Item No. 5  
3/7/58

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 7, 1958



The Honorable  
The Comptroller of the Currency,  
Washington 25, D. C.

Dear Mr. Comptroller:

This is with further reference to a letter from Mr. Masters to your Office dated July 16, 1957 and Mr. Jennings' reply of July 26, 1957, with respect to possible deletion of footnote 11a to section 10(c) of Federal Reserve Regulation F, which relates to the tax status of collective investments of employee-benefit trusts.

The proposed letter to the Commissioner of Internal Revenue that was enclosed with Mr. Masters' letter of July 16 was sent to the Commissioner under date of July 31, 1957. The Board has now received a reply, dated February 5, 1958, and a copy thereof is enclosed. You will note that the Commissioner has concluded that "the rule stated in footnote 11a is correct, and, therefore, should be retained in Regulation F." In accordance with this recommendation by the Commissioner, the Board has decided not to delete or modify footnote 11a but rather to leave it in Regulation F in its present form.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,  
Secretary.

Enclosure

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

Item No. 6  
3/7/58

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 7, 1958



CONFIDENTIAL (FR)

Mr. Walter H. Rozell, Jr.,  
Vice President,  
Federal Reserve Bank of New York,  
New York 45, New York.

Dear Mr. Rozell:

In view of the circumstances described in your letter of February 21, 1958, the Board of Governors approves the continuation of the payment of salary to Mr. Joseph A. Hunter, as General Clerk, Auditing Department, Salary Grade V, for a period not to exceed six months from March 1, 1958, at the rate of \$3,432 per annum, which is \$108 below the minimum of the grade in which his job is classified.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,  
Secretary.



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

Item No. 7  
3/7/58

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 7, 1958



Mr. Carl E. Allen, President,  
Federal Reserve Bank of Chicago,  
Chicago 90, Illinois.

Dear Mr. Allen:

This letter refers to yours of February 25, 1958, inquiring as to the member of the Board's staff who will serve as an associate of the Subcommittee on Bank and Public Relations for the coming year.

Because of his close contact with and interest in the whole problem of bank and public relations, the Board has designated Mr. Charles Molony, Special Assistant to the Board, to serve as associate with the Subcommittee. The Board appreciates your comments about Miss Burr and the continuation of her service would be most acceptable to the Board. However, it was felt that because of Mr. Molony's direct interest in the work of the Subcommittee, he should be designated.

Very truly yours,

A handwritten signature in cursive script, appearing to read "S. R. Carpenter".

S. R. Carpenter,  
Secretary.