

The attached minutes of the meeting of the Board of Governors and the Presidents of the Federal Reserve Banks on March 24, 1959, which you have previously initialed, have been amended at the suggestion of the Secretary of the Presidents' Conference to revise the first two sentences on page 4.

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

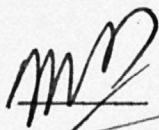
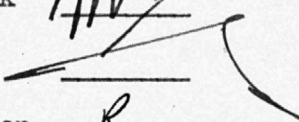
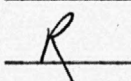
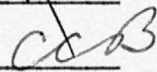
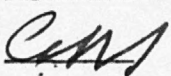
Gov. Szymczak

Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

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 March 24, 1959.

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	<u>                    </u>	x <u>                    </u>
Gov. Szymczak	x <u>                    </u>	<u>                    </u>
Gov. Mills	x <u>                    </u>	<u>                    </u>
Gov. Robertson	x <u>                    </u>	<u>                    </u>
Gov. Balderston	x <u>                    </u>	<u>                    </u>
Gov. Shepardson	x <u>                    </u>	<u>                    </u>

103/59 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, March 24, 1959, at 11:50 a.m.

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

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary

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

Messrs. Treiber and Freutel, First Vice Presidents of the Federal Reserve Banks of New York and St. Louis, respectively

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

Before this meeting the Presidents had submitted a memorandum listing topics 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. Mechanization of check handling operations. The Conference had before it the report of the Subcommittee on Electronics dated February 27, 1959, concerning action recommended to be taken regarding pilot installations of equipment for the mechanization of check handling operations of the Federal Reserve Banks. Mr. Kimball, Chairman of the Subcommittee, and Mr. Cox, Stanford Research Institute, were present by

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invitation to answer questions of a technical nature which might be raised by the Presidents. Mr. Fulton summarized the principal recommendations in the report which contemplate:

- a. That the Federal Reserve Bank of New York immediately enter into contracts with five manufacturers for certain equipment which, in the aggregate, will provide pilot installations in five Federal Reserve offices,
- b. Subject to certain variations in length of rental periods and purchase dates, expenditures of (a) approximately \$377,300 for rental of equipment during the first six months of such installations, and (b) if all installations prove satisfactory, approximately \$1,546,200 for purchase of such equipment at the end of the six-month test period (plus maintenance charges after purchase), and
- c. Postponement, pending consideration by each Federal Reserve Bank and submission of a further Subcommittee report, of the selection by the Conference of Presidents of the offices in which to make such pilot installations.

There followed considerable discussion of the proposals submitted by the several manufacturers, with particular reference to the variances reflected in the rental, purchase price, and maintenance charges. The Presidents expressed concern over the necessity for certain Reserve Banks to bear the higher cost of pilot equipment; however, the view was expressed that this must be considered a necessary contribution to the development of the mechanization program.

It was moved and unanimously voted that the Conference (1) approve the several recommendations contained in the Subcommittee report and (2) consider the recommended program with the Board at the joint meeting on March 24. The Conference also expressed the view that prompt approval of this program was urgent.

Messrs. Kimball and Cox of the Federal Reserve Bank of New York and Stanford Research Institute, respectively, were present during the discussion of this topic.



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Following comments by Chairman Erickson and President Fulton regarding the background and nature of the recommendations of the Subcommittee on Electronics, which recommendations had been approved by the Presidents' Conference, a number of questions were raised for discussion by the Board. The first of these related to the cost involved for those Reserve Banks where pilot installations were to be made, and the response was in terms that the possibility of some cost-sharing arrangement had been given careful consideration by the Presidents' Conference. However, when both short and longer-run factors were taken into account, no more satisfactory solution was found than for those Banks where the pilot operations were conducted to absorb the cost as a contribution to the common interest.

In response to another question, which related to the potential capability of the equipment, it was stated that certain unknown factors made it difficult to offer an entirely reliable prediction. However, indications were that three sorting units might replace as many as 25 proof machines and that the saving on space would be in the neighborhood of 65 to 70 per cent. Intangibles included the ever-increasing volume of checks handled and developments in the labor market that might affect personnel stability in the check collection function.

With respect to the extent of legal or moral obligation to the manufacturers of such equipment, it was stated that the Reserve Banks would not be obligated in any way until operating machinery was

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actually delivered. When manufacturers were invited to submit proposals, they were advised that it was the intention of the Federal Reserve Bank to use, for a period of three to five years, the equipment of those manufacturers that satisfactorily met performance requirements during the test period, provided, among other things, that additional comparable equipment would be available to the Federal Reserve Banks upon terms reasonably competitive with those of other manufacturers and available at substantially similar delivery dates. The Board was assured that during the forthcoming negotiations with manufacturers for pilot installations it would be made clear that the Federal Reserve Banks were not yet in a position to specify the extent to which they might eventually make further use of equipment of the various manufacturers and that the matter of such further use must continue to be in the discretion of the Federal Reserve Banks.

After discussion of various other aspects of the matter, including the time that would be required to put the pilot installations into operation, the Board approved unanimously the program recommended by the Subcommittee on Electronics and accepted by the Presidents' Conference.

2. Safekeeping facilities of the Federal Reserve Banks. In its letter of December 8, 1958, the Board had submitted a suggested current statement of general policy with regard to safekeeping and related practices, and requested the comments of the Conference of Presidents in the light of the review of safekeeping practices which was agreed upon by the Conference at its meeting of February 10, 1958. Pursuant to action agreed upon at the special session of the Conference held January 6, \*1958, the Subcommittee on Cash, Leased Wire, and Sundry Operations prepared and distributed to the Presidents its letter report dated February 25, 1959, which set forth a recommended draft of a statement of general policy based upon suggestions of and practices followed by the several Reserve Banks.

\* Special session of the Conference held on January 6, 1959.

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After incorporation of several modifications, the Conference approved (10 to 2) the following statement of general policy:

The following statement of general policy for the Federal Reserve Banks in safekeeping of securities and related procedures is necessarily expressed in broad terms to provide sufficient flexibility for each Federal Reserve Bank to perform its responsibility of establishing regional policies, within the framework of the general policy, that will contribute to the efficient and economical operations of the Federal Reserve Bank:

1. Securities owned by member banks located outside of Federal Reserve cities may be accepted for safekeeping without restriction.
2. Securities owned by member banks located in Federal Reserve cities but outside of the central financial district may be accepted for safekeeping without restriction.
3. Securities issued by the U.S. Government and its agencies and owned by member banks located in the central financial district of Federal Reserve cities may be accepted for safekeeping or held in "collateral account" (even if not actually pledged as security for borrowings or deposits) if such custody contributes to the efficient and economical operations of the Reserve Banks.
4. Securities--other than those issued by the U.S. Government and its agencies--owned by member banks located in the central financial district of Federal Reserve cities may be held if required as collateral for borrowings or to secure deposits.
5. Securities in which third parties have an interest should not be accepted from member banks for safekeeping except (1) securities pledged as collateral by member banks to secure deposits of public funds, (2) securities deposited with a public official to qualify member banks to exercise trust powers, (3) securities pledged as collateral to secure deposits of trust funds in their commercial banking departments, and (4) securities pledged pursuant to Treasury Department instructions and Federal court orders, but with the understanding that this policy be interpreted to provide recognition of the fact that there may be cases in addition to those specifically mentioned which may be handled at the discretion of the individual Reserve Bank.

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6. The amount of securities held for nonmember banks as collateral for Treasury Tax and Loan Accounts should have a reasonable relationship to the actual depositary balances over a period of time.
7. Securities issued by the U. S. Government, which are the property of States or political subdivisions thereof, may be accepted for safekeeping where such service appears desirable; but, in order not to overload the vault facilities of the Reserve Banks, there should be no general invitation to States and political subdivisions to deposit their securities for safekeeping.

The Presidents were advised that the Board would give consideration to the proposed statement of general policy and inform the Conference of its views. For explanation of the modifications referred to in the statement submitted by the Presidents on this topic, the Board was referred to the letter report of the Subcommittee on Cash, Leased Wire, and Sundry Operations dated February 25, 1959, and the attachments to such report.

President Leedy, who had voted against the statement of policy, expressed the opinion that a determination of the propriety of providing safekeeping facilities based on geographical considerations represented a departure involving elements of inequity.

3. Reimbursement for verification and destruction of unfit U. S. currency. The Conference had before it a letter report of the Subcommittee on Fiscal Agency Operations dated March 10, 1959, presenting findings and recommendations resulting from its review of the reimbursement fee for verification and destruction of unfit U. S. currency in the light of current costs. The Chairman of the Committee on Fiscal Agency Operations summarized the findings of the Subcommittee report



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and pointed out that (1) for fiscal 1958 the System average cost per 1,000 pieces was \$.262 and cost the System only \$2,742.76 more than was reimbursed; (2) for the first 6 months of fiscal 1959 the average cost was \$.299 and estimated cost per 1,000 pieces for the second half of fiscal 1959 was \$.288. The Committee on Fiscal Agency Operations presented alternative recommendations of adopting a new reimbursement rate of 28.8 cents per 1,000 pieces (1) retroactive to July 1, 1958, or (2) retroactive to January 1, 1959. The Conference then voted (7 to 5) to increase the reimbursement rate from 26 cents per 1,000 pieces to 28.8 cents, retroactive to July 1, 1958.

As Chairman of the Committee on Fiscal Agency Operations, President Leach reviewed the reasons for and against each alternative considered by the Presidents' Conference and indicated the extent of cost absorption thereunder. In the course of discussion, circumstances that contributed to the higher unit cost during the last half of 1958 were mentioned, and the opinion was expressed that continuation of approximately the current unit cost might reasonably be expected for the next fiscal year.

The suggestion then was made that President Leach be authorized to enter into negotiations with the Fiscal Assistant Secretary of the Treasury to determine whether it would be appropriate to request reimbursement at the rate of 28.8 cents per 1,000 pieces retroactive to July 1, 1958, or in the alternative to January 1, 1959, and to reach a decision on behalf of the Reserve Banks. Agreement being expressed with this suggestion, President Leach was so authorized.

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Secretary's Note: President Leach subsequently ascertained that the Treasury would be agreeable to reimbursing the Federal Reserve Banks at the rate of 28.8 cents per 1,000 pieces retroactive to July 1, 1958.

4. Furnishing of wrapped coin by the Federal Reserve Banks. There had been distributed to the Presidents copies of the Board's letter of February 3, 1959, addressed to Chairman Erickson, requesting that the Conference undertake a review of the basis for computing costs of coin wrapping operations at those Federal Reserve Banks which provide such service, with a view to placing the charges for the service on a more nearly uniform basis than now exists, and to securing reimbursement for substantially the costs involved. The Conference concurred in Mr. Erickson's recommendation that this matter be referred to the Committee on Miscellaneous Operations which, in turn, is to appoint an ad hoc committee to review the basis for computing costs of coin wrapping service.

There was no discussion of this topic.

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

- a. On the basis of information received that no minority report will be submitted at this time, the Conference voted unanimously to (1) accept the majority report of the Subcommittee on Bank Supervision, submitted in June 1957, regarding use of Section 30 of the Banking Act of 1933 as an instrument of bank supervision, and (2) discharge the Subcommittee on Bank Supervision. It was understood that should a minority report be submitted at a later date, it would be received by the Conference without prejudice and would be considered on its merits.
- b. The Conference considered the following items presented for review and discussion by the Special Committee on Emergency Operations: (1) release to the National Armored Car Association of names and locations of cash agent banks, provided such information is treated as

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confidential; (2) instructions for disposition of currency in armored car possession at time of attack; (3) Federal Reserve Bank financing of construction of vault facilities at Fort Riley, Kansas, for storage of currency for use in a national emergency; (4) policy question of Federal Reserve reimbursement to cash agent banks for additional cost of insurance to cover liability for loss due to own negligence (referred back to Special Committee for review by counsel of legal aspects involved in this question); (5) question of providing and distributing special printed currency for issue and use in event of a national emergency.

- c. In lieu of the assignment of new ABA transit numbers to 13 Federal Reserve Banks and Branches in connection with the electronic processing of checks, the Conference voted to adopt an alternative plan suggested by the Federal Reserve Bank of Minneapolis as follows: (1) each Federal Reserve office to substitute its own immediate credit routing symbol for the routing symbol "000" on its officers' and expense checks; (2) the use of Federal Reserve exchange drafts to be eliminated. Incident to the above noted action of the Conference it was also agreed that (1) Mr. Mangels is to notify the ABA of the change, and (2) the Subcommittee on Collections is to consider the necessary changes in operating circulars and/or time schedules of the Reserve Banks.
- d. After discussing the report of the Insurance Committee dated February 27, 1959, which reviews existing "for the account of" arrangements for currency shipments in effect at several Federal Reserve Banks, the Conference voted (11 to 1) to refer the question back to the Insurance Committee for the preparation of a suggested statement of conditions defining which types of "for the account of" arrangements are to be covered under the Loss Sharing Agreement. It was understood that upon receipt of a satisfactory "statement of conditions," the Conference would decide whether such statement should be incorporated in the Loss Sharing Agreement or adopted by the Conference as a separate supplementary agreement.
- e. It was the sense of the meeting that the minutes of special sessions of the Conference of Presidents held on January 6, January 27, and February 10, 1959, together with related

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reports and other material, be incorporated by reference in the permanent records of the Conference.

- f. The Nominating Committee recommended and the Conference voted (11 to 1) to reelect Mr. Erickson as Chairman and Mr. Johns as Vice Chairman of the Conference of Presidents for the ensuing year. Mr. Erickson accepted subject to the understanding that a successor Chairman be elected at the Conference meeting in June 1959.

Discussion of these items was limited to explanatory comments by appropriate members of the Presidents' Conference.

Chairman Erickson stated that the subject of major medical insurance had not been placed on the agenda for this joint meeting because of the absence of President Johns, Chairman of the Committee on Personnel, and President Hayes, whose views were somewhat at variance with the recommendations of the Subcommittee on Personnel. However, there would be forwarded to the Board the minutes of a special session of the Conference on February 10, 1959, reflecting consideration of the major medical insurance topic, along with a letter dated February 5, 1959, in which Mr. Hayes expressed his views on the matter.

Chairman Erickson also referred to discussion by the Presidents' Conference at a special session on January 6, 1959, concerning the question of rebate of unearned interest on prepaid borrowings from a Federal Reserve Bank. He noted that the Presidents continued to feel there was no need for a uniform policy in this respect.

Governor Balderston referred to two matters on which the Board would like to have the views of the Presidents, and it was understood

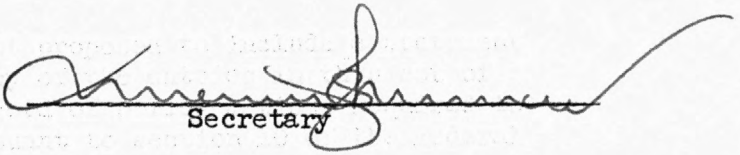


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that in each case a request for consideration of the matter would be made in the form of a letter from the Board to the Chairman of the Conference.

The meeting then adjourned.

  
 Secretary

Mr. Martin

Mr. [unclear]

Mr. [unclear]

Mr. [unclear]

Mr. [unclear]

Mr. [unclear]