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 June 16, 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		x M
Gov. Szymczak	x	
Gov. Mills		x
Gov. Robertson	x R	
Gov. Balderston		x CCB
Gov. Shepardson	x	
Gov. King	x	

A meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks was held in the Board Room of the Federal Reserve Building in Washington, D. C., on Tuesday, June 16, 1959, at 11:45 a.m.

PRESENT: Mr. Szymczak, Acting Chairman
Mr. Robertson
Mr. Shepardson
Mr. King

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary

Messrs. Erickson, Hayes, Bopp, 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. Nye, Secretary of the Conference of Presidents of the Federal Reserve Banks
Mr. Lapkin, Secretary-designate of the Conference of Presidents

Prior to this meeting there had been distributed to the members of the Board a memorandum of the topics that the Presidents would like to discuss. The topics, the statement of the Presidents with respect to each, and the discussion at this meeting were as follows:

1. Rate of reimbursement for handling postal money orders. The Conference voted to approve the recommendation of the Committee on Collections and Accounting that the Federal Reserve Banks adopt a revised reimbursement rate of $2.20 per thousand money orders processed during the period July 1, 1959 through June 30, 1960, and that when such rate is presented to the Post Office Department the Federal Reserve Banks reserve the right to review and redetermine the rate of reimbursement at any time during the fiscal year in the event of any substantial change in operations or in the factors on which the rate is based.

President Mangels commented briefly on the matter and stated that the usual letter would be sent to the Post Office Department with respect to the proposed rate of reimbursement.

2. Furnishing of wrapped coin by the Federal Reserve Banks. The Conference accepted with appreciation the report of the Ad Hoc Committee on Wrapped Coin Costs dated May 29, 1959. In order to insure consonance of the recommended formula for computing coin-wrapping costs with current System cost accounting practices, the Conference agreed to refer the matter to the Subcommittee on Accounting for review. Pending receipt of a report from that Subcommittee, the Presidents deferred their decision regarding the policy question of placing charges for the service on a more nearly uniform basis and securing reimbursement for substantially the costs involved.

After reviewing the reasons why the Presidents' Conference had decided to refer the report of May 29, 1959, to the Subcommittee on Accounting for study of the recommended formula for computing coin-wrapping costs, President Fulton said that upon receipt of a report from the Subcommittee the Conference would consider the matter further and present its views to the Board.

In this connection President Hayes noted that the Board's letter of February 3, 1959, indicated a willingness to leave the question whether to engage in the coin-wrapping function to the determination of the individual Reserve Banks but requested the development of a uniform approach to making charges, if wrapped coin was furnished, with a view to securing reimbursement for substantially the costs involved. Mr. Hayes pointed out that the New York Bank had for many years followed the practice of furnishing a limited amount of wrapped coin to country banks without charge and said that the Board's letter therefore presented a problem. The Bank would like to be able to continue its present service to the country banks but was not in a position to undertake to supply the New York City banks because of the additional facilities that would be required.

In response to a question regarding the need to continue the service to the country banks, Mr. Hayes said those banks had become accustomed to the practice over a period of years and a bank relations problem would arise from a decision to terminate it. He had no great brief for the coin-wrapping service as such, but if other Reserve Banks continued to wrap coin he felt that the New York Bank might be placed in an embarrassing position by stopping the limited service to country banks. He also felt that it would be difficult to institute a charge at this point.

3. Reimbursement for handling Federal tax depositary receipts. The Conference approved the recommendation of the Committee on Fiscal Agency Operations, based on a study of actual costs for the current fiscal year to date, to reduce the reimbursement rate from 12.24 cents per receipt to 12 cents per receipt retroactive to July 1, 1958. Mr. Leach pointed out that the reduced rate will result in a saving to the Treasury of approximately $18,000 for fiscal 1959. The Conference also approved the Committee's recommendation that tentative rates of 12.17 cents for fiscal 1960 and 12.27 cents for fiscal 1961 be submitted to the Treasury.

President Leach discussed the procedure followed, in respect to some fiscal agency operations, of reaching agreement on a rate of reimbursement on the basis of an estimated unit cost and then making adjustment, if necessary, in the light of experience in order that the Reserve Banks, as a group, might recover approximately their actual costs. He also commented briefly on the principal reason for the favorable experience in handling Federal tax depositary receipts during the fiscal year 1959 and on the reasons for the anticipated higher unit costs in the fiscal years 1960 and 1961.

No objection being indicated, it was understood that the matter would be taken up with the Treasury on the basis proposed by the President's Conference.

> 4. Reimbursement for verification and destruction of unfit United States currency. The Committee on Fiscal Agency Operations recommended and the Conference approved rates of reimbursement per 1,000 pieces of money destroyed of 28.9 cents for fiscal 1960 and 29.4 cents for fiscal 1961.
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> With regard to the suggestions set forth in Mr. Heffelfinger's letter of June 1, 1959, to Mr. Leach and Mr. Baird's letter of June 1, 1959, to Chairman Martin, the Presidents agreed that the Federal Reserve Banks should be represented at a suggested Federal Reserve-Treasury meeting (to explore certain aspects of the verification and destruction operations) by the Conference Committee on Fiscal Agency Operations as presently constituted, namely, Mr. Leach, Mr. Fulton, and Mr. Mangels.

With reference to discussion at the joint meeting of the Board and the Presidents on March 24, 1959, President Leach noted that the Treasury had thereafter agreed to an adjusted reimbursement rate of 28.8 cents per thousand pieces of money destroyed retroactive to July 1, 1958. He pointed out that the rates of reimbursement approved by the Conference for the fiscal years 1960 and 1961 likewise were regarded as subject to adjustment in the light of actual operations.

There being no objection, it was understood that the matter would be taken up with the Treasury on the basis of the action taken by the Presidents.

There followed a brief discussion of the letters from the Treasury, as referred to in the statement of the Presidents' Conference, and of the proposal that representatives of the Board and the Federal Reserve Banks meet jointly with Treasury representatives for consideration of the questions raised in those letters. Reference was made to the survey being conducted currently by the Board's Division of Bank Operations concerning variations in the verification and destruction procedures followed by the respective Reserve Banks and it was stated that in due course the Presidents would be advised of the representation designated by the Board for participation in the Treasury-Federal Reserve meeting, which would take place after the results of the survey by the Division of Bank Operations were available.

The view was expressed in the course of discussion that it appeared doubtful at this point whether the Treasury would be receptive to any plan whereby the Reserve Banks would be divested of the currency verification and destruction function and that the Treasury-Federal Reserve meeting probably would have to be directed principally toward establishing the need for such safeguards as the System might consider appropriate to minimize the dangers inherent in the verification and destruction operations. In this connection Mr. Hayes commented that some of the Banks felt more strongly than others regarding the desirability of terminating these operations and that he, for one, did not feel so strongly about the matter.

5. Practices of Federal Reserve Banks relating to the audit function. Pursuant to the Board's letter request of April 10, 1959, the Conference reviewed the practices at each of the Federal Reserve Banks relating to certain aspects of the audit function. It was the sense of the meeting that Chairman Erickson summarize the findings of such review at the joint meeting with the Board of Governors on June 16.

Chairman Erickson noted that the Board's letter of April 10, 1959, had requested discussion by the Presidents' Conference of (1) the question of attendance by one or more senior officers at some of the Reserve Banks at meetings of the directors' Audit Committee, and (2) the somewhat related question of salary administration as it pertains to those engaged in the audit function. With respect to the second of those questions, he said that discussion at the Conference meeting yesterday disclosed that, although there were some variations, in general the salary of the General Auditor was reviewed with the Chairman of the Board of Directors and with the top officers of the Bank before being considered by the Board of Directors. The establishment of salaries for others on the audit staff was handled in much the same manner as the fixing of salaries for personnel in the other departments of the Bank, with consideration given to the general personnel administration policies of the institution.

With regard to the first question, Chairman Erickson said that at eight of the Banks it was not the practice for operating officers to attend meetings of the Audit Committee. At the Boston Bank it was the practice for the President or First Vice President to attend, but they took no active part in the meeting except to answer questions on operational matters with which they were particularly familiar. Neither at the Boston Bank nor at any other Bank following a similar procedure was there any intent to impede the General Auditor in the performance of his duties, and the latter had the privilege at any time of requesting a meeting with the Audit Committee from which the operating officers would be excluded. In summary, Mr. Erickson said, it was the view of the Conference that the matter should be left to the discretion of each Reserve Bank, with the understanding that such procedure as was worked out should have the approval of the Chairman of the Board, the Chairman of the Audit Committee, and the General Auditor.

Governor Shepardson commented that the Board's concern had to do with assuring the freedom and independence of the General Auditor, recognizing at the same time that the General Auditor and his staff must be regarded as a part of the personnel organization of the Reserve Bank. To put the matter another way, the Board was concerned about providing such safeguards as would assure the freedom of the General Auditor and his staff to perform their assigned functions for the Board of Directors.

Governor Szymczak commented regarding the situation that prevailed when the Chairman and Federal Reserve Agent was a full-time officer at the Reserve Bank and the audit staff was responsible directly to that officer, and through him to the Board of Directors. In view of the changed organizational setup, he said, and in the light of certain questions that had arisen in the course of reviewing the procedures followed by the Board's examining staff in making examinations of the Federal Reserve Banks, the Board decided that it would like to have a discussion with the Presidents, and later with the Chairmen of the Reserve Banks, for the purpose of making sure that the General Auditor had full latitude to report to the directors his findings concerning the operations of the Bank. Along these lines, the Board also was interested in having a report from the Presidents concerning the matter of salary administration as it pertained to the audit function because of the relationship of that matter to the problem under discussion. In essence, and having in mind practical considerations involved in the Reserve Bank organizational setup, the question was whether the General Auditor continued to have the relationship with the directors that he enjoyed when his staff was directly responsible to the full-time Chairman and Federal Reserve Agent.

Governor Robertson commented on the necessity for having the status of the General Auditor clearly defined as a safeguard against criticisms that might develop from scrutiny of the System's audit activities by outside parties and also on the necessity for being sure that the relationships indicated on paper were actually observed in practice.

President Hayes agreed that it was highly important for the General Auditor to be assured of free access to the Chairman of the Board and the Board of Directors, and he added that this was the case at present.

President Johns stated that the St. Louis Bank was one of those where it was the practice for either the President or the First Vice President to attend meetings of the Audit Committee, which were held just prior to the meetings of the Board of Directors. Although this was felt to provide a convenient arrangement and in his judgment did not in any way impair the freedom of the General Auditor to levy criticisms, nevertheless he did not attach great weight to formal arrangements. Of more concern to him were what he referred to as the realities of the situation, and the key to the problem was to obtain a General Auditor who could not be intimidated. If the General Auditor was a person who could be intimidated, he doubted whether the proper selection had been made, and if the President would attempt intimidation, there was a question whether the right man was holding that office. In further comments, made in reply to a question, Mr. Johns discussed briefly measures that might assure the selection and retention of a person properly qualified for performance of the General Auditor's functions.

The discussion concluded with comments by President Leach regarding the importance of following procedures at a Reserve Bank consistent with giving recognition to the status of the General Auditor within the organization. He went on to illustrate his point by relating that when the selection of a new General Auditor was required at his Bank recently, the Audit Committee of directors gave consideration to certain individuals and thereafter made a recommendation to the Board of Directors with regard to the individual selected and his salary. These procedures were duly recorded in the minutes.

6. Rebate of unearned interest on prepaid borrowings from a Reserve Bank after a rate change. The Conference had before it the Board's letter of May 18, 1959, relating to this topic. The Presidents, after some discussion, voted unanimously to reaffirm the position stated at the special session of January 6, 1959, that there was no need for uniformity and that each Reserve Bank should determine its own rebate policy. It was agreed that Mr. Leedy would present to the joint meeting the Conference views regarding the Board's suggested policy of charging interest at the discount rate or rates prevailing during the period of the borrowing.

President Leedy, at whose request the question of the rebate of interest on prepaid borrowings originally came before the Presidents' Conference for review, stated that in essence the problem might be considered a relatively minor matter of an administrative nature. He then recalled that for many years the Reserve Banks, with one exception, had been adhering to a ruling of the Governors' Conference which provided in effect that if a member bank prepaid a borrowing after a reduction in the discount rate, a rebate would be made on the basis of the new rate. However, in the event of an increase in the discount rate the rebate was made at the old rate. This procedure, he said, did not appear to have given rise to any great amount of difficulty, although occasionally a member bank would complain. Primarily because the outstanding ruling had not been reviewed in many years, the Kansas City Bank requested discussion of the matter, and it developed to be the majority view of the Presidents' Conference that the long-established rule was appropriate and should be continued. It was thought that the matter was essentially an administrative one to be handled in the discretion of each Reserve Bank and that uniformity was not necessary. This would enable the Minneapolis Bank, and any others that so desired, to follow the Minneapolis practice of rebating at the original rate despite a change in the discount rate.

President Leedy then turned to the Board's letter of May 18, 1959, which, while it would not require immediate uniformity of practice, suggested that the problem be resolved in the future by instituting an automatic change in the rate of interest on outstanding loans whenever the discount rate was raised or lowered. The Conference, Mr. Leedy said, was unanimous in looking with disfavor upon this plan. First, the Presidents had in mind the long-established principle that the terms of the contract between a lender and borrower fix both the maturity of the loan and the cost of the loan for the period to maturity. Violation of that principle, it was felt, would create far more problems in the area of bank relations than were likely to arise through adherence to the current procedures. Second, adoption of the plan suggested by the Board would result in additional work for the Reserve Banks by requiring them to recompute interest for the unexpired portion of all loans outstanding on the date of change in the discount rate. Under the present procedures, it was not felt that undue advantage of the situation was being taken by the member banks. While there might be some instances of borrowing in anticipation of a rate change, this could be dealt with through discount window administration and keeping borrowings on a short-term basis. In summary, it was the view of the Presidents that adoption of the suggested plan would be decidedly to the disadvantage of the Reserve Banks and that the problems arising occasionally under the current procedures would be minor in comparison with those likely to come up under the Board's proposal.

In reply to a question, President Leedy said that adoption of the Minneapolis practice would eliminate the occasional complaints to which he had referred. However, it was contended by those Presidents looking with disfavor on the Minneapolis plan that it would encourage member banks, following a discount rate reduction, to repay their loans, borrow again, and thus obtain the benefit of the rate reduction.

President Allen commented that at Banks where the general practice was followed of limiting borrowings to a 15-day or shorter basis the question tended to be academic. If a problem should ever arise, the amount involved would be so small that a serious complaint was unlikely.

In reply to an inquiry, he stated that country banks, like city banks in the Seventh District, generally borrowed on a 15-day basis except when agricultural paper was discounted. He recognized that longer-term borrowing might be more common in the Ninth and Tenth Districts.

President Deming agreed that the question tended to be academic in character, but he added that occasionally a prepayment was made and the purpose was not to take advantage of a rate change. If that were the purpose, the matter could be policed by the Reserve Bank, and in the circumstances he saw no reason to follow a rebate policy that might give rise to occasional questions on the part of member banks. Therefore, he would like to continue the long-standing Minneapolis practice.

President Leedy indicated that the Kansas City Bank also contemplated instituting the Minneapolis plan, if that were permitted as a matter of general System policy.

Messrs. Hayes and Allen then summarized the position favored by the majority of the Presidents, stating that the rebate policy followed by most of the Reserve Banks tended to make administration of Regulation A easier, created no public relations problem, and made it a little more difficult for member banks to take advantage of a change in the discount rate.

7. <u>Additional items of information arising out of current Conference meeting</u>. 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. The Conference approved the report of the Subcommittee on Collections dated May 19, 1959, with respect to the following:

(1) Language revisions in operating letters and circulars of the Federal Reserve Banks, effective July 1, 1959, to reflect the substitution of the immediate credit routing symbol in place of the symbol "000" on officers' checks and expense checks, and the elimination of Federal Reserve exchange drafts;

(2) Recommendation that the Subcommittee on Collections be granted permission to make a comprehensive review of noncash operating practices and procedures of the Federal Reserve Banks and branches to determine whether changes in the uniform language of the noncash operating circulars seem desirable; and

(3) Recommendation that the Subcommittee on Collections be authorized to develop a program, consistent with any program pursued by the ABA, aimed at the elimination of so-called "headache" checks, i.e., items not readily adaptable to processing by electronic equipment.

b. The Conference:

(1) Accepted the report of the Subcommittee on Machine and Tabulating Equipment dated April 30, 1959, on Utilization of Synchro-Monroe Card Punch Verifier for Certain Tabulating Operations;

(2) Accepted the report of the Subcommittee on Machine and Tabulating Equipment dated June 2, 1959, on Meeting of Planning and Punched Card Personnel of the Federal Reserve Banks held at the Federal Reserve Bank of Kansas City, May 4-6, 1959; and

(3) Concurred in the recommendation of the Committee on Miscellaneous Operations to change the name of the Subcommittee on Machine and Tabulating Equipment to the Subcommittee on Systems and Procedures.

c. The Presidents considered letter report of the Subcommittee on Electronics dated May 13, 1959, and accepted the following items as presented therein:

(1) Promotion of use of common machine language by commercial banks;

(2) Installation of encoding devices at Federal Reserve Banks not having pilot installations; and

(3) Status of contract negotiations with equipment manufacturers.

The Conference deferred consideration of the Subcommittee's proposals relating to the preprinting plans of Federal Reserve Banks until the next special session of the Conference.

d. The Conference concurred in the conclusion set forth in letter report of the Subcommittee on Fiscal Agency Operations, dated May 22, 1959, that the practice with regard to signature requirements and signature verification on Fiscal Agency documents received from member and nonmember banks should be left to the discretion of each Reserve Bank.

e. The Chairman of the Committee on Research and Statistics reported that the program for collection of certain statistics as an additional phase of the Federal Funds study was scheduled to commence September 1, 1959. Mr. Hayes expressed the hope that the September 1 date could be deferred in the event that the forthcoming Treasury-Federal Reserve study of the Government securities market suggested changes in the dealer report forms.

f. The Committee on Research and Statistics reported that it had again discussed the retail trade statistics program. The Committee believed, and the Conference concurred, that the Committee should confer with the technical staffs of the Reserve Banks and the Board with a view to (1) incorporating technical improvements in the retail trade statistics now being collected, and (2) eliminating unneeded items from the department store series.

g. The Presidents unanimously authorized the Chairman of the Committee on Research and Statistics, from time to time, to appoint ad hoc committees to assist the Committee in matters falling within the purview of the Committee.

h. The Conference took the following action with respect to items presented for its consideration by the Special Committee on Emergency Operations:

(1) Accepted letter report of the Chairman of the Subcommittee on Emergency Cash Operations dated June 5, 1959, on the question of pre-attack storage of currency with Cash Agent banks, and referred the report to the Board of Governors for its information and guidance;

(2) Deferred until the next special session of the Conference final consideration of joint report of the Insurance Committee and the Subcommittee of Counsel on Emergency Operations dated May 19, 1959, concerning extent and method of indemnification of Cash Agent banks; and

(3) Concurred in Mr. Hayes' suggestion that, as proposed by Governor Robertson, a member of the Board's staff bring the Presidents up to date regarding plans for Reserve Bank participation in Operation Alert 1959, following the July 7 meeting of the Open Market Committee.

i. The Presidents accepted the report of the Nominating Committee and unanimously elected Mr. Johns as Chairman and Mr. Bryan as Vice Chairman of the Conference, with terms of office to become effective following the close of the Conference meeting of June 15, 1959. The Conference then approved the appointment of David Lapkin, Federal Reserve Bank of St. Louis, as Secretary, effective as of the aforementioned date.

These items were reviewed by Chairman Erickson, but there was no discussion with respect to them.

The meeting then adjourned.

Secretary