The minutes of the joint meeting of the Board and Reserve Bank Presidents on November 24, 1959, which you have previously initialed, have been amended at the suggestion of President Bopp to make certain changes in his comments which begin at the bottom of page 6.

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

Chm. Martin
Gov. Szymczak
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. King
Minutes for November 24, 1959

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.1/

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, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin
Gov. Szymczak
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. King

1/ Meeting with Presidents of the Federal Reserve Banks.
A meeting of the Board of Governors of the Federal Reserve System and the Presidents of the Federal Reserve Banks was held in the Board Room of the Federal Reserve Building in Washington, D.C., on Tuesday, November 24, 1959, at 12:15 p.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. King

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Farrell, Director, Division of Bank Operations

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. Dunne, Secretary of the Conference of Presidents of the Federal Reserve Banks

This meeting was held for the purpose of considering the report and recommendations of the Ad Hoc Committee on Currency Destruction Arrangements relating to proposed changes in the procedure for verification and destruction of unfit Treasury currency. The Ad Hoc Committee consisted of the members of the Presidents' Conference Committee on Fiscal Agency Operations (Presidents Leach, Fulton, and Mangels) and Governor Robertson.

By letter from Mr. Farrell, Secretary of the Ad Hoc Committee, dated November 12, 1959, there had been transmitted to the Presidents
of all Federal Reserve Banks copies of (1) the report of the Committee
dated November 12, 1959; (2) the Board's letter of March 19, 1959, to
the Fiscal Assistant Secretary of the Treasury; Acting Secretary of the
Treasury Baird's letter to Chairman Martin dated June 1, 1959; and the
Fiscal Assistant Secretary's letter of the same date to Mr. Leach,
Chairman of the Committee on Fiscal Agency Operations; (3) a proposed
revision of the Treasury regulations governing the redemption, verifi-
cation, and destruction of unfit United States paper currency; and (4)
a statement showing estimated additional expenses in connection with
the proposed revision of the currency destruction procedure. Copies
of Mr. Farrell's letter and its enclosures had also been made available
to the members of the Board.

The November 12 report explained that the Ad Hoc Committee had
adopted as basic and guiding premises the beliefs that (1) there was
no logical reason for not giving to the destruction of Treasury currency
safeguards equal to those afforded the destruction of Federal Reserve
notes, and (2) uniform practices among the Reserve Banks in destroying
unfit Treasury currency were highly desirable. From a Federal Reserve
standpoint, the Committee concluded that the most desirable solution
to the problem would be to have the Treasury resume the operation in
entirety, thereby placing the destruction of unfit Treasury currency
on a parallel basis with the destruction of unfit Federal Reserve
notes. While the Committee believed, therefore, that resumption of the operation by the Treasury should be strongly recommended to the Treasury, it had in mind the Treasury's feeling about added costs, as indicated in Mr. Baird's letter of June 1, 1959. Accordingly, the Committee sought a less costly alternative that would (1) parallel as nearly as possible the procedure for handling unfit Federal Reserve notes, (2) be mutually agreeable to the Treasury, the various Federal Reserve Banks, and the Board, and (3) be significantly less costly than resumption of the operation by the Treasury. After considering various factors, the Committee concluded that it would be desirable to recommend a revision of the Treasury regulations under which:

(1) All unfit Treasury currency would be banded longitudinally, canceled, and cut into upper and lower halves.

(2) The lower halves of the notes would be delivered to a currency verification unit similar to the existing unit, and the upper halves would be delivered to a new currency custody unit, which would also be a fiscal agency operation but which would be completely separate and apart from the currency verification unit.

(3) The lowers would be verified by a piece count (complete or partial, depending upon denomination).

(4) The uppers would be handled as a custody function without piece count verification unless a difference or exception was reported in the verification of the lowers.

(5) The lowers and uppers would be destroyed separately by their respective custodians.

Estimates received from the Federal Reserve Banks indicated that operations under the proposed regulations would be more costly than under the present
arrangements by about $65,000 per year in reimbursable expenses and
$144,000 in nonreimbursable Money Department costs. It was expected
that audit expense would be about the same.

Acting Secretary Baird's letter of June 1, 1959, had referred
to the difficulty of obtaining funds for any additions to the cost of
the verification and destruction operation and had suggested a meeting
between representatives of the Treasury and the Federal Reserve System
for the purpose of identifying the opportunities for irregularities in
the present arrangement and exploring means by which they might be mini-
mized or eliminated. Fiscal Assistant Secretary Heffelfinger's letter
of the same date had also suggested an inter-agency meeting, for the
purpose of discussing costs of the operation and providing a basis to
establish greater uniformity among the Reserve Banks in the procedures
followed. In letters to Mr. Baird dated June 9 and July 31, 1959,
Chairman Martin had stated that the Board concurred in the desirability
of a Treasury-Federal Reserve meeting, that a Federal Reserve group
had been designated to consider the matter, that the committee felt
it desirable to develop certain additional information, and that it
was hoped the Treasury would not be inconvenienced by the delay neces-
sarily involved.

The Ad Hoc Committee on Currency Destruction Arrangements now
proposed to meet with representatives of the Treasury. In this con-
nection, it sought authority from the Board and the Presidents to
recommend that the verification and destruction of unfit Treasury
currency be resumed by the Treasury. If that recommendation was re-
dected by the Treasury and if the circumstances should seem appropriate,
the Committee sought authority to propose for consideration by the
Treasury a revision of the Treasury regulations along the lines indi-
cated in the Committee's report of November 12, 1959.

Speaking on behalf of the Ad Hoc Committee, President Leach
reviewed the correspondence exchanged between the Federal Reserve and
the Treasury in March and June of this year, following which he out-
lined the manner in which the Committee had proceeded with its study
and the basic premises adopted by that group. He then described how
the current arrangements presented opportunities for irregularities
through collusion involving small groups of persons and enumerated
the steps envisaged by the proposed alternative procedures, which it
was believed would provide a reasonable approximation of the protection
afforded under the procedures followed in the verification and destruction
of Federal Reserve notes. In the Committee's judgment, he said, the
proposed procedures could be defended and would provide a system under
which it would be difficult for irregularities to develop except through
collusion on the part of a substantial number of persons.

With reference to the estimated additional expenses that would
result from adoption of the proposed procedures, Mr. Leach explained
that the portion to be absorbed by the Reserve Banks represented the
cost of Money Department operations similar to those formerly performed on a nonreimbursable basis when unfit United States currency was sent to the Treasury for redemption, and currently performed on such basis under the present procedures for verification and destruction of unfit Federal Reserve notes.

Mr. Leach also said that he doubted the necessity of going into the details of the suggested plan at this meeting but that, if the consensus favored the over-all approach, technical suggestions from the respective Reserve Banks would be taken under consideration. One such suggestion, he said, had already been received.

President Allen stated that he had received from his staff a memorandum containing several suggestions within the category that President Leach had just mentioned. He went on to say that he was in full sympathy with the Committee's approach and that he would favor giving the Committee authority to modify the details of the plan in accordance with suggestions from any Reserve Bank that it considered to have merit.

Several of the other Presidents indicated that they concurred in the view expressed by Mr. Allen.

Chairman Martin then inquired whether it was agreed that more protection was desired than afforded under present procedures, and the responses that were heard were in the affirmative.

In this connection, President Bopp made a statement concerning procedures currently followed at the Philadelphia Bank in the verification
and destruction of Treasury currency and expressed the judgment that these procedures were as safe as and cheaper than those proposed by the Committee. He stated also that adoption of the Committee proposal might require, among other things, purchasing an incinerator to replace the one now in use which had been made especially for the incineration of full notes. Accordingly, he said, the Bank would have preferred something different from the plan developed by the Committee. At the same time, he agreed that the principle of uniformity was of overriding importance in this case and felt it would be inappropriate for the Philadelphia Bank to follow a system that varied from what the other Reserve Banks were doing. Therefore, he would be willing to go along with the Committee proposal.

President Leedy noted that the verification and destruction operation was primarily the responsibility of the Treasury, and that the Treasury had devised procedures with which it apparently was satisfied, although the Federal Reserve was not. In these circumstances, he raised a question as to the propriety of presenting to the Treasury an agreed-upon plan for revision of the existing procedures prior to meeting with representatives of the Treasury for exploration of the areas of risk, particularly when the proposed revision was estimated to involve additional expense of around $200,000 a year. In raising this question, Mr. Leedy made it clear that he was not opposing the plan of the Ad Hoc Committee, his concern being solely with regard to the approach to the matter.
Comments made in response to Mr. Leedy's inquiry were to the effect that the Ad Hoc Committee had endeavored to study the problem along lines suggested by Mr. Baird's letter of June 1, 1959. It had first assembled information on the areas of risk exposure and then had developed a plan designed to minimize the opportunities for irregularities inherent in the present arrangement. Before meeting with the Treasury, it seemed necessary for the Committee to know whether the plan that it had developed was satisfactory to the Board and Presidents as a basis for negotiation with the Treasury.

In this connection, Chairman Martin commented that if the Treasury contended there was no undue risk in the current procedures, rejected the idea of resuming the verification and destruction function itself, and questioned the desirability of adopting the alternative proposal developed by the Ad Hoc Committee, the Committee no doubt would want to come back to the Board and Presidents for determination as to how to proceed.

After further comments, President Leedy indicated that the discussion had clarified the situation and that he would be agreeable to authorizing the Ad Hoc Committee to proceed in the manner suggested.

Chairman Martin then inquired whether it was the wish of the Board and the Presidents to give the Ad Hoc Committee authority to go forward, bearing in mind the point raised by Mr. Leedy, and no dissents were heard.
Accordingly, the Ad Hoc Committee was authorized to meet with representatives of the Treasury and to recommend that the verification and destruction of unfit United States currency be resumed by the Treasury. If that recommendation should be rejected and if the circumstances seemed appropriate, the Committee also was authorized to propose for consideration by the Treasury a revision of the Treasury regulations along the lines set forth in the Committee's report of November 12, 1959. This action was taken within the understanding that the Committee was authorized to modify the details of the proposal to such extent as it might deem desirable in the light of technical suggestions received from any Reserve Bank.

The meeting then adjourned.

[Signature]
Secretary