Minutes for December 15, 1959.

To: Members of the Board

From: Office of the Secretary

The attached minutes of the joint meeting of the Board and the Reserve Bank Presidents on December 15, 1959, which you have previously initialed, have been amended in the following respects:

Page 4 - to revise the remarks of Mr. Hayes.
Page 14 - to correct a date to which reference is made in the fifth line.
Page 22 - to change the last sentence (first paragraph) of the remarks attributed to Mr. Johns.

If you approve the minutes as amended, it will be appreciated if you will initial below.

Chm. Martin
Gov. Szymczak
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. King
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, December 15, 1959, at 12:15 p.m.

Present: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman 1/
Mr. Szymczak
Mr. Mills
Mr. Robertson 1/
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. Dunne, Secretary, Conference of Presidents

Before this meeting the Presidents had submitted a memorandum listing 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. Reserve Bank Fixed Asset and Capital Accounts. The Conference considered the question of fixed asset accounting and capital accounts in the light of the following documents and other pertinent considerations:

   (1) Report, dated November 27, 1959, of Subcommittee on Accounting.

   (2) Memorandum, dated December 7, 1959, of Committee on Collections and Accounting.

1/ Withdrew at point indicated in minutes.
After discussion, it was the opinion of the Conference that present statutory provisions with respect to capital stock should not be modified.

The Conference agreed to recommend to the Board of Governors:

(1) that surplus of Reserve Banks be maintained at 100 per cent of their respective subscribed capital stock;

(2) that the reserves for contingencies be discontinued and present balances in that account be transferred to profit and loss;

(3) that the reserve for registered mail losses be likewise discontinued and disposed of (Presidents Allen and Deming voting in the negative);

(4) that costs of movable furniture and equipment continue to be charged to current expense (Presidents Bryan, Irons, Allen, Erickson, and Bopp voting in the negative);

(5) that present methods of depreciating building and vault and fixed machinery be continued until the depreciation account equals the asset value of the building and equipment accounts and that the present classification of the components of such accounts as well as current depreciation schedules be re-examined (Presidents Johns and Mangels voting in the negative); and

(6) that the above adjustments be made at such time and in such manner as the Board of Governors may determine.

In the course of introductory comments concerning the consideration given to this subject by the Presidents' Conference, Chairman Johns noted that the Presidents would defer to the Board of Governors with regard to the question of timing the necessary adjustments, if the recommendations of the Conference should be concurred in by the
Board, but that some of the Presidents had views they would like to express. He then turned to Mr. Mangels, Chairman of the Committee on Collections and Accounting, who reviewed and amplified in certain respects the recommendations of the Presidents' Conference. In this connection, Mr. Mangels outlined briefly the position of those Presidents who had dissented with respect to some of the recommendations.

With regard to the timing of adjustments, Mr. Mangels said there had been suggestions that payments to the Treasury might be made in installments over a period of time. Some question, he said, had been raised about the possible effect upon open market operations of a transfer to the Treasury in the magnitude of $250 million. If it were decided to make such a payment at the end of this year, one possibility might be to seek an agreement on the part of the Treasury that the funds would be put into the general account and earmarked for release when open market procedures would justify. Mr. Mangels also commented that the Subcommittee on Accounting had on its agenda a complete study of fixed asset accounting and that the consensus of the Presidents' Conference contemplated requesting the Subcommittee to proceed with its review and present recommendations.

Mr. Hayes said that although, as Mr. Mangels had mentioned, the Treasury could be asked to earmark funds transferred to it pursuant to the Conference recommendations and release them gradually, he felt that in general it was undesirable to place the Treasury in a position
of exercising open market functions. In his opinion, much could be said for paying the money to the Treasury gradually, at times when reserves were needed or when the payments could easily be offset by open market operations. There was some apprehension at the New York Bank, Mr. Hayes said, that the payment to the Treasury of an amount of the size contemplated could be construed as helping out a budgetary problem. To avoid possible implications, one alternative would be to make a decision regarding the payment of the funds and then to defer an announcement until a later date; it might be desirable to pay the money to the Treasury in 12 installments during 1961. Among other things, he felt that consideration should be given to the interpretation that might be placed upon the payments by parties abroad, including foreign central banks.

Mr. Bryan commented on the recommendations of the Presidents' Conference regarding the cost of movable furniture and equipment and methods of depreciating building and vault and fixed machinery. It occurred to him, he said, that the Reserve Banks have a fiduciary responsibility to the people of the United States, inasmuch as the Government is the residual legatee of Reserve Bank property. In a situation of that sort, he felt that the fiduciary has a moral, and in many respects a legal, obligation to let the principal know the approximate value of the property. Therefore, while recognizing
that accounting practices do not always reflect the exact facts and that from time to time it may be necessary to reappraise property, he considered it desirable to follow standard accounting practices. As he saw it, a fundamental difficulty was that the Reserve Banks had handled their property accounts neither in the usual Governmental fashion nor in the manner in which private businesses usually handle their accounting, but rather somewhere in between. He then pointed out that the Internal Revenue Service has done a great deal in the field of fostering standard asset accounting and is charged with the responsibility of seeing that the revenue of the United States is protected. Accordingly, he felt that a solution of the problem of Reserve Bank accounting for fixed assets would be to follow precisely the schedules established by the Internal Revenue Service. This would involve keeping records on many items now charged off to expense, but the defense for what the Reserve Banks were doing would be perfect. Furthermore, in view of the mechanization of accounting techniques, the cost of following such a procedure should not be too great. In answer to a question, Mr. Bryan said that he did not favor reconstructing accounts for this purpose.

Mr. Deming said that, although he was agreeable to leaving to the Board's judgment the timing of any payment or payments to the Treasury, there had occurred to him a timing suggestion that he felt might have merit. As to the reserves for contingencies, which were
built up primarily in 1948 and 1949, he would be content to transfer the present balances to profit and loss, and pay the amount to the Treasury at whatever time seemed prudent. He did not feel that this would create any difficulty, for it could be said that these reserves had been held by the Reserve Banks somewhat in the manner of trust funds. While he and Mr. Allen had voted against discontinuing and disposing of the reserve for registered mail losses, they were in the minority; accordingly, he would favor handling that reserve in the same way as the contingency reserves. As to surplus, Mr. Deming noted that there are no guides or standards as to what level would be appropriate. Rather than to pay over to the Treasury at this time all of the excess over 100 per cent of subscribed capital stock, he would prefer to fix 100 per cent of subscribed capital as the figure beyond which no additions would be made to surplus but to leave present amounts in excess of 100 per cent in the surplus accounts and to "grow up" to the point where that would be required. This would take several years at some Reserve Banks but probably would average 3-1/2 to 4 years. In his opinion, such a procedure might represent a more understandable package than trying to do the whole thing at one time and might avoid some of the implications that could otherwise be drawn.

Mr. Leedy said he had supported Mr. Deming's views during the discussion by the Presidents' Conference. Although he had no strong
feeling and felt that the Board was in a better position to determine
the extent and timing of payments to the Treasury, it seemed to him
that it would be worthwhile to give some consideration to not scaling
down existing surplus if within a relatively short time the Reserve
Banks would need all of the surplus now in their accounts to provide
surplus equal to 100 per cent of subscribed capital stock. Among
other things, it seemed to him that a write down of surplus might
create some feeling on the part of member banks that the System was
stripping itself. Although he realized the lack of validity in such
a feeling, he noted that the member banks often fail to distinguish
between central banking and commercial banking. In further comments,
Mr. Leedy made it clear that he subscribed to the package recommended
by the Presidents' Conference and that his only question related to
the manner of implementing the recommendation that surplus be maintained
at 100 per cent of subscribed capital stock. The procedure Mr. Deming
had suggested would arrive at that point in a relatively short time.

Mr. Allen suggested that the problem of timing be considered
by the Board without regard to implications that might be drawn from
the adjustments necessary to implement the Conference recommendations.
He felt that this would only lead to other complications.

Mr. Mangels commented that a procedure such as suggested by Mr.
Deming, that is, to hold surplus accounts at their present levels and
allow capital to grow up to them, would have the advantage of assuring
that for several years payments to the Treasury would be equal to 100 per cent of net earnings, or substantially so. On the other hand, if the principle that surplus should be maintained at 100 per cent of subscribed capital stock was accepted, there was much to be said for making the appropriate payment.

Mr. Leach commented that the idea of waiting until capital accounts were greater before paying the money over to the Treasury had some appeal. However, although some Reserve Banks would reach the point mentioned by Mr. Deming in a year, others would not reach that point for perhaps ten years. He questioned whether that would be particularly desirable. With reference to the statement by Mr. Bryan, Mr. Leach indicated that he was sympathetic with the point that the Reserve Banks should be familiar with Internal Revenue practices. On the other hand, he questioned whether the Banks should follow such practices to the letter. He would favor the recommendations of the Presidents' Conference on the basis of their being conservative and involving a simple accounting procedure.

Mr. Hayes said he agreed strongly with the recommendation on movable furniture and equipment as a means of avoiding unnecessary work.

2. Receipt at Federal Reserve Offices of Unissued Federal Reserve Notes. By letter, dated March 25, 1959, to the then Chairman of the Conference, the Board of Governors noted that considerable variation existed among Federal Reserve offices in procedures for receipt of unissued Federal Reserve notes and suggested that a study be made of these arrangements with a view to defining safeguards
and providing recommendations to improve such procedures. The study was undertaken by the Subcommittee on Cash, Leased Wire, and Sundry Operations and the results are set out in its report, dated November 19, 1959.

The Conference took the following actions with respect to the recommendations of the report:

(1) A motion to adopt the recommendation that dual responsibility of the Federal Reserve Agent's representative and the Reserve Bank commence immediately upon receipt of shipments by Bank personnel, irrespective of the place of delivery and receipt, failed by a vote of 7 to 5. (Presidents Leedy, Irons, Hayes, Erickson, Bryan, Bopp, and Mangels voted in the negative. It was the contention of the Subcommittee that delivery to postal substations or representatives thereof was delivery to the Reserve Banks and not to a division of the U. S. Post Office. The dissenting Presidents, other than Mr. Mangels, contended that the Bank substations were a part of the U. S. Post Office Department and that Bank responsibility starts upon receipt from the substation. Mr. Mangels voted in the negative on the ground that local conditions at San Francisco warranted continuation of present arrangements there.)

(2) A motion to require official representation of the Reserve Bank when notes are deposited in a vault under joint control of the Agent and the Bank (without prejudice to Bank representation at delivery of pouches to Agent's representatives at opening and verification of pouches by responsible nonofficial Bank personnel) was adopted. (President Irons voted in the negative and President Bryan abstained.)

(3) A motion that each Reserve Bank review procedures which reflect adaptation to local situations and which differ from practices of the majority of Banks was unanimously passed.
As Chairman of the Committee on Miscellaneous Operations, President Fulton outlined the recommendations contained in the report of the Subcommittee on Cash, Leased Wire, and Sundry Operations dated November 19, 1959, and the actions taken by the Presidents' Conference with respect to them.

With reference to his negative vote on the Subcommittee recommendation that dual responsibility of the Federal Reserve Agent's representative and the Reserve Bank commence immediately upon receipt of shipments of unissued notes by Bank personnel irrespective of the place of delivery and receipt, President Mangels commented that the Federal Reserve Bank of San Francisco and its branches do not have postal substations in the respective offices. After referring to the quality of personnel sought for the Federal Reserve Agent's staff, he pointed out that the procedure proposed by the Subcommittee would have required members of the Agent's staff to go to the Post Office to take physical possession of the currency. The Reserve Bank, he said, has registered mail tellers who go to the Post Office regularly. In the case of unissued Federal Reserve notes, those tellers receipt for pouched packages with rotary lock numbers which they bring back to the Reserve Bank or branch, as the case may be, and turn over to a representative of the Federal Reserve Agent, along with an officer of the Reserve Bank and a representative of the Auditor. The rotary lock number is subsequently verified with the Post Office. Mr. Mangels said
it seemed to him unnecessary to change the existing procedure in the manner proposed because he did not feel that anything would be gained in the way of protection. He noted that the registered mail tellers regularly bring securities in large amounts from the Post Office to the Reserve Bank.

President Hayes said he wished to emphasize the view of the New York Reserve Bank that employees of postal substations located on Reserve Bank premises are employees of the Post Office Department. When performing that function, he would regard them as no more Bank Personnel than the representatives of the Federal Reserve Agent. In response to a question, Mr. Hayes said that the salaries of such employees are paid by the Federal Reserve Bank but that representatives of the Federal Reserve Agent also are on the Reserve Bank pay roll.

Governor Balderston withdrew from the meeting during the discussion of the foregoing topic.

3. Retail Trade Statistics. The Conference concluded that in view of the many uncertainties involved in the retail trade statistics program it would be undesirable to set any target date (e.g., May 1) for the final revision of the departmental components of the retail trade statistical series. It authorized its Committee on Research and Statistics, however, to take such steps as will facilitate withdrawal of the System from the program on the earliest practicable date.

President Irons, Chairman of the Committee on Research and Statistics, referred to a meeting attended by representatives of the Federal Reserve System, the Bureau of the Budget, the Census Bureau,
and the department store trade which was held in Washington on Thursday, December 10, and said that the meeting had not resulted in clarification as to the time at which the retail trade statistics program might be taken over by the Census Bureau. The meeting also revealed a considerable degree of dissension on the part of the trade as to the proposed take-over. For one thing, Mr. Irons said, it was not known at this time whether the Census Bureau would obtain the appropriation necessary to undertake the program. Also, there was uncertainty as to the degree to which the department store sales data would be cut back by the proposed series. In the circumstances, the Presidents concluded that the issuance of a general letter or a press release at this time would be inadvisable and that it would be undesirable to set any target date such as May 1960 for revisions in the data now being collected. However, the Committee on Research and Statistics would continue to work with the Board's staff; the Presidents and the Board would be kept informed as to developments. Further, as the statement of the Presidents indicated, the Committee was authorized to take such steps as would facilitate withdrawal of the System from the program at the earliest practicable date.

4. Emergency Planning. The Conference accepted and approved a report, dated December 4, 1959, of the Special Committee on Emergency Operations, endorsing and transmitting reports of its subcommittees on emergency cash, check, and Treasury operations and commenting on questions raised concerning OPAL 1959 by the Board of Governors, as well as other matters, including:
1. Recommendation (a) that existing policy be continued under which currency stored with agent banks would be Bank rather than Agent's cash, and (b) that while the Committee favors retention of present provisions of the cash agent agreement as to notice to be given to agent by the principal, "self-triggering" cash agency arrangements be permitted Reserve Banks with appropriate amendment, in the Banks' discretion, of agency agreements.

2. (a) Report of preparation of draft booklet on cash operations for distribution to commercial banks, (b) approval of amendment of Reserve Bank circulars to cover coin distribution (should an individual Reserve Bank so elect), and (c) recommendation that Reserve Bank circulars specify Federal Reserve absorption of the cost of currency (and coin) shipments.


4. Report of letter to Mr. McCloy regarding commercial bank planning (the Special Committee noting in its report concurrence with the view that commercial banks should not be pressed too hard on emergency planning until the basic banking program is decided and announced).

5. Replies to questions on OPAL 1959 raised in letter of the Board of Governors, dated September 28, 1959, the Special Committee noting its conclusion (a) that uniformity on pre-positioning cash is unnecessary and that establishment of centralized vaults at Fort Riley is desirable, (b) that centralized control of System cash operations seems undesirable, (c) that detailed planning for inter-District substitution of Federal Reserve offices is not warranted, (d) that certain "self-triggering" check arrangements would be appropriate, and (e) that Series E Bond redemptions should be handled by each Reserve Bank in its discretion under authority of existing Treasury emergency instruction.

6. Recommendation with respect to emergency Treasury operations (a) that Reserve Banks should not issue emergency V-loan guarantees without reference to
guaranteeing agencies and that such agencies should be
so informed at the national level by the Board of Governors,
with the Board also inquiring whether such agencies would
adopt appropriate measures for emergency certification of
loans, (b) that in the light of the December 10, 1956,
Treasury memorandum, no further detailed planning with
that Department in regard to fiscal agency questions is
necessary, (c) that, notwithstanding the importance of
debt management, planning in that area should await
Treasury initiative, (d) that development of a program of
nation-wide interest rate ceilings is of dubious feasibility
and must await joint planning with the Treasury, and (e)
that inauguration of plans concerning insurance companies
and other financial institutions (other than plans, now in
progress, for Government securities dealers) must await
initiative from over-all Government planning sources.

7. Recommendation with respect to emergency check
operations that each Reserve Bank define its "notice"
provisions in accordance with its individual plans or
conditions.

The Special Committee also urged Federal Reserve Banks
to proceed with issuance of their circulars concerning
emergency check collection and cash distribution, if
they have not done so.

The Conference voted to change the name of the Committee
to "Committee on Emergency Operations," deleting the
word "Special."

After reviewing the items included in the report dated December 4,
1959, which had been approved by the Presidents' Conference, Mr. Hayes,
Chairman of the Committee on Emergency Operations, inquired as to the
status of the basic emergency banking program.

Chairman Martin replied that a report had now been completed and
was to be sent to the President of the United States within the next
few days. At the present time, he (Chairman Martin) did not feel at
liberty to discuss the report in detail. However, he suggested that developments probably would permit discussion at a subsequent meeting of the Board and the Presidents.

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. Check Collection -- Saturday Availability and Deposit of Items. The Conference considered the report, dated November 30, 1959, of the Subcommittee on Collections. The report reaffirmed the recommendation of the ad hoc committee that each Federal Reserve office should consider Saturday as a business day only when the receiving Federal Reserve office actually processes and dispatches on Saturday direct sent checks received before its closing hour on that day from other territories. The Subcommittee noted, however, that if its recommendation was not accepted "no change in the current practices of the various Federal Reserve offices be required at this time." The Conference voted eleven to one (Mr. Mangels voting in the negative) that no change in current practices be required.

The Conference accepted a conclusion, included in the Subcommittee report, that (subject to the possible desirability of review by Reserve Bank counsel) there is no operating objection to Reserve Bank acceptance of packages of separately sorted country checks deposited by city banks at a later hour than provided for regular deposits.

b. Check Mechanization Program -- Pilot Installation. The Conference accepted and approved a report, dated November 27, 1959, of the Subcommittee on Electronics recommending (1) selection of the Federal Reserve Banks of Chicago and Philadelphia as the location of pilot installations Nos. 1 and 5, respectively, (2) approval of a policy of installing additional encoding devices in Federal Reserve offices (a) in support of the five basic pilot installations and (b) to implement arrangements with commercial banks for mutual encoding
of dollar amounts, the Subcommittee on Electronics to be kept informed as to encoding devices therefor, (3) that Reserve Banks having pilot installations be free to exercise, in their discretion, as to any or all such equipment, options to purchase afforded by the arrangements with the manufacturers, (4) that present restraints on Reserve Bank personnel participation in manufacturer's demonstrations be removed as to manufacturers whose equipment is involved in the five basic pilot installations, and (5) that a press release be issued prior to December 31, 1959, announcing the Federal Reserve offices in which the five pilot installations will be located and identifying as to each office the manufacturer(s) of the equipment to be installed therein.

c. Personnel. The Conference concluded that it does not favor at this time any expenditure of funds to provide voluntary accelerated retirement without actuarial discount. The Conference further directed its Subcommittee on Personnel (1) to review the Banks' experience with involuntary retirement against the background of provisions relating to supplementary retirement allowances, and (2) to appraise the proposed post-retirement death benefit in the light of the priority generally attached to such provision in current retirement procedures.

d. Motion Picture. The Conference approved in principle the preparation of a "treatment" for a motion picture of the Federal Reserve System but concluded that any such production, while designed to have a wide-spread appeal, should involve a less sensational and more educational tone than that suggested in the Henry Strauss, Incorporated, "treatment."

e. Regulation D. The Conference discussed the recent "vault cash" amendments to Regulation D, several Presidents noting that the increase in the country bank reporting requirements, as well as the limited and selective relief given, raised problems of bank relations in their Districts. The Conference further noted that the exclusion of Federal Reserve drafts from gross demand deposits raised the possibility of a large-scale use by member banks of such instruments in lieu of officers' checks.
The Conference decided to request the Subcommittee of Counsel of the Insurance Committee to re-examine the legal theory underlying the Loss Sharing Agreement in view of the provision of the amended Regulation D providing that money shipments to and from a Federal Reserve Bank shall be included in vault cash.

With respect to item (d), Chairman Johns commented that for some time the System Research Advisory Committee's Subcommittee on Education and Publications had been studying the idea of producing a motion picture that would inform the public about the Federal Reserve System. The Chairman of the Research Advisory Committee had sent to the Chairman of the Presidents' Conference, with an inquiry as to whether the Presidents would consider it desirable to have a script prepared, a copy of a "treatment" produced by Henry Strauss, Incorporated, describing in general terms the kind of picture that organization had in mind. Within the Presidents' Conference, Mr. Johns said, there were differences of opinion as to whether it would be possible for any kind of motion picture to do the job envisaged. With respect to the Strauss "treatment", the conclusion of the Conference was as set forth in item (d).

The meeting then recessed and reconvened in the Board Room at 2:00 p.m. with the same attendance as at the conclusion of the earlier session except that Governor Robertson was not present.

With regard to item (e), Chairman Johns said there had been considerable discussion by the Presidents of various questions raised by the recent amendments to Regulation D, Reserves of Member Banks.
He then turned to President Allen, who referred to the portion of the Board's letter to the Reserve Banks dated November 30, 1959, which advised of adoption of a recommendation of the System Research Advisory Committee providing for a biweekly reserve computation period for country banks, with weekly reporting, to be effective beginning December 31, 1959. While Mr. Allen agreed that it would be desirable to have these data for purposes of monetary and credit policy, he felt that many country banks would be unhappy about the proposed change in reporting to a weekly basis, especially those banks that did not get any benefit from the Board's action of November 30 in respect to the counting of a portion of vault cash as reserves. Mr. Allen expressed the hope that a Reserve Bank might be allowed to ask country member banks to report on a weekly basis but refrain from laying down a requirement.

President Leedy said that the situation in the Tenth District was similar to that reported by President Allen. Like Mr. Allen, he expressed the hope that the Reserve Banks might be given some latitude in attempting to obtain compliance with the weekly reporting requirement, for he concurred in the view that this would be a source of irritation to a number of smaller banks. If a Reserve Bank were to insist on compliance, he felt that there would be a deterioration in bank relations and that some smaller banks might be encouraged to withdraw from membership in the System. He went on to say that a survey
in the Tenth District indicated that less than 10 per cent of country banks got any benefit from the recent vault cash action and less than 20 per cent of the reserve city banks got any benefit. The purpose of the action, as he had understood it, was to effect a greater relief for country than for city banks. Mr. Leedy hoped the Board might find it possible to take further action with respect to vault cash, although he recognized the difficulties involved in such action. The complaint had been heard a number of times, he said, that the action making an excess over a certain percentage of net demand deposits available to be counted as reserves was not as satisfactory to the banks as allowance of a straight percentage of vault cash would have been.

President Mangels said that the San Francisco Reserve Bank's operating circular relative to the new reporting basis had gone into the mail only recently and that there had not been sufficient time for the receipt of complaints, if there were to be any. He also commented that at the San Francisco Bank the reserve reports had traditionally been regarded as operating and not statistical reports. According to the Board's letter of November 30, however, the reports would be used for economic analysis before the reserve accounts were analyzed.

Chairman Johns said he shared the apprehensions that had been expressed about the reaction on the part of country banks to the weekly reporting requirement. While he could not say that there had been any approaches in the Eighth District leading to possible withdrawal from
the Federal Reserve System that were directly attributable to this requirement, the whole climate at this time was not particularly favorable to System membership on the part of country banks. There were appearances that representatives of some reserve city banks, both inside the District and in contiguous areas, were working rather hard on country banks to get them out of membership. While the activities of those representatives might not reflect top management policy of the banks concerned, Mr. Johns felt that the weekly reporting requirement might represent an additional factor that would tip the scales in favor of a decision on the part of a country bank to withdraw from the System.

Mr. Hayes said that he hesitated to comment because he did not want to minimize the problem pointed out by the other Presidents who had spoken. Thus far, however, there had been no problems in the New York District.

Mr. Erickson said that there had been none in the First District, and Mr. Irons commented to the same effect with regard to the Eleventh District.

Mr. Allen then stated that if the Board found merit in his suggestion it would be desirable to have advice as soon as possible because the weekly reporting requirement was to start December 31. Should the Chicago Bank not be advised, however, it would do the best it could.
Governor Mills referred to the comments of Messrs. Allen and Leedy about working toward compliance and suggested that difficulties might arise if compliance was not complete. If a member bank was a little slow in complying, the Reserve Bank perhaps could follow the situation and exercise persuasion, but he would consider it dangerous to suggest to a bank that it might just forget about the requirement.

In response, Mr. Allen suggested that it might reduce the irritation if a member bank could be advised to the effect that the Reserve Bank would appreciate its reporting weekly on the tear sheets that were being distributed, but that this was not required. Through such an approach, he felt that it would be possible to obtain complete compliance in the course of time.

President Erickson suggested that the Reserve Banks might keep their ears to the ground and wire the Board before the date that the weekly reporting requirement was to become effective if there were any comments in the respective Districts.

Governor Mills then commented that a Reserve Bank should not be unduly influenced by a few complaints out of a total of many member banks.

President Allen concluded the discussion of this phase of the subject by saying that he had been talking more about anticipated complaints than those already received.

Chairman Johns then referred to that portion of the statement by the Conference on item (e) which noted that the exclusion of Federal
Reserve drafts from gross demand deposits raised the possibility of large-scale use by member banks of such instruments. It seemed possible, he said, that member banks would use such instruments not only in making remittances for cash letters but also in substitution for officers' checks. If there should be operating problems, it appeared that the Reserve Banks would have to deal with them as they came up. In furtherance of the preparations for mechanized check handling, most of the Reserve Banks had agreed to supply draft forms to their member banks; they might have a much larger problem on their hands than previously thought.

There being no comments on the other items of information contained in the memorandum submitted by the Presidents' Conference, this concluded the discussion of the topics listed on the agenda for the meeting.

Mr. Bryan, Chairman of the Committee on Personnel, referred to the practice whereby the Board frequently designates members of its staff to serve as associates of subcommittees of the Presidents' Conference and suggested that the Board might wish to consider the desirability of naming a member of its staff to serve as an associate of the Subcommittee on Personnel.

Chairman Martin commented that the Board, even though it might not be able to furnish specific answers in some cases, stood ready to discuss actual or prospective problems with the Reserve Bank Presidents
12/15/59

at any time. He added that a measure of the success of the Federal Reserve System lies in exchanging views and that the Presidents should not be apprehensive about the thought of imposing on the Board by bringing up any matters of concern to them.

The meeting then adjourned.

[Signature]

Secretary