A meeting of the Board of Governors of the Federal Reserve System
was held in Washington on Friday, June 25, 1957, at 11:30 a.m.

PRESENT: Mr. Eccles, Chairman
          Mr. Broderick
          Mr. Szymczak

          Mr. Morrill, Secretary
          Mr. Bethea, Assistant Secretary
          Mr. Clayton, Assistant to the Chairman

Consideration was given to each of the matters hereinafter referred
to and the action stated with respect thereto was taken by the Board:

Telegrams to Messrs. Kimball, Strater and Young, Secretaries of the
Federal Reserve Banks of New York, Cleveland and Chicago, respectively, and
to Mr. McKinney, President of the Federal Reserve Bank of Dallas, stating
that the Board approves the establishment without change by the New York
bank on June 24, 1957, and by the Cleveland, Chicago and Dallas banks today,
of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated June 25, 1957, from Mr. Goldenweiser, Director of
the Division of Research and Statistics, recommending the appointment on a
temporary basis for a period of three months of Mr. Thomas M. Parsons as a
junior economist in the Division, with salary at the rate of $200 per month,
effective as of the date upon which he enters upon the performance of his
duties.

Approved unanimously.

Telegram to the Presidents of all Federal reserve banks, reading
as follows:
"In response to an inquiry from a Federal Reserve bank re interpretation of section 3(d) of Regulation Q, Board has reached conclusion that where fifth day of any calendar month is Sunday or full holiday, a member bank may pay interest calculated from the first day of month on a savings deposit received on next business day after such fifth day of month."

Approved unanimously.

Letter to Mr. A. F. Lewitt, Lexington, Kentucky, reading as follows:

"Reference is made to your letter of May 17, 1937 which the Securities and Exchange Commission has referred to the Board.

"From your letter it appears that you deposited preferred stock of a certain corporation as collateral with the Lexington, Kentucky, office of the brokerage firm of W. E. Hutton & Co. This stock had formerly been listed on a national securities exchange and the firm was under the impression that the securities were registered at the time and therefore treated the securities as having loan value as registered securities and extended credit on them to finance the purchase of other securities. Later, W. E. Hutton & Co. learned that the shares in question had been delisted and were not registered securities entitled to loan value under the Board's applicable regulation either at the time they were accepted by the firm as collateral or subsequently. Upon learning of this fact, W. E. Hutton & Co., apparently having in mind section 8(g) of the Board's Regulation T, of which a copy is inclosed for your information, advised you of this mistake and requested that you supply margin to replace these securities, and when you did not supply this margin the firm sold the securities. You state that as a result of the sale you suffered certain losses, and your inquiry is addressed to the question of possible redress against the firm of W. E. Hutton & Co.

"For your information, the purpose of the Board's regulations and the provisions of law under which they are issued is, in general, confined to the prevention of the excessive use of credit for the purchase or carrying of securities. While loss to either party to a transaction resulting from one party's mistake is to be regretted, in the light of the foregoing general statement of the Board's function in the matter you will no doubt appreciate the fact that its jurisdiction does not extend to the determination of possible rights or liabilities as between the parties to securities
"transactions and that it would be inappropriate in the circumstances for the Board to express any opinion regarding possible rights or liabilities of either party in a transaction such as you describe. Without regard to that question, however, it may be stated that, on the basis of the facts indicated above, it does not appear that W. E. Hutton & Co. violated any provision of the Board's Regulation T in selling the securities in question."

Approved unanimously.

Letter to Mr. Sargent, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"Reference is made to your letter of April 26, 1937, regarding the inquiry of Seattle-First National Bank, Seattle, Washington, as to the possible effect under Regulation U of the substitution of registered stocks as collateral for a loan originally supposed to have been made for the purpose of purchasing unregistered stocks. The question is presented in the following excerpt which you quote from the bank's letter:

'Another point has been raised by one of our officers in connection with a substantial loan which was made for the purpose of purchasing unlisted stocks which are pledged as security with an additional margin of unlisted stocks. The borrower subsequently withdrew on trust receipt part of the unlisted stocks, sold the same and purchased listed stocks which were substituted as part of the collateral. The original loan of course was not interpreted as being subject to Regulation U, and the question now arises as to whether this substitution of listed stocks for unlisted stocks, without any change in the amount of the principal of the loan, creates a situation which involves Regulation U in any manner."

'This question was considered when Regulation U was being prepared, and it was realized that there would be some possibility of evasion of the regulation if the original purpose of the loan was made the determining factor. However, this possibility did not seem to be so great as to justify the increased difficulties which would be caused banks in operating under the regulation if a different rule were followed; and, accordingly, the regulation was drafted so that, at least for the present, the original purpose of the loan is controlling."
"It should be borne in mind in this connection, however, that the original purpose of the loan should not be determined upon a narrow analysis of the immediate use to which the proceeds of the loan are put. Instead, the fundamental purpose of the loan should be considered to be controlling. As you state in your letter:

'* * * it might be established that the purpose of the borrower from the outset was the purchase of registered stocks. In this case, the regulation would probably apply if the bank were aware of the intention. At any rate, it might be concluded that any repetition of the practice would overcome the presumption of the bank that the purpose was correctly stated by the borrower. The bank might not be considered as acting "in good faith" if it accepted a statement by the borrower that the loan was not subject to the regulation.'

"In the case presented by Seattle-First National Bank the question of whether the loan was originally subject to Regulation U would depend upon the intention of the borrower when the loan was obtained. If the loan was obtained with the idea of purchasing the unregistered stocks merely as a temporary expedient and shortly thereafter selling the unregistered stocks and purchasing registered stocks, the loan should be considered to be a loan for the purpose of purchasing or carrying registered stocks. The circumstances related would seem to raise at least some question as to whether the loan was not of this type.

"Of course, a bank would not be responsible for misrepresentations made to it by its borrowers if the bank operates diligently and in entire good faith; but a bank should carefully scrutinize cases in which there is any indication that the borrower is concealing the true purpose of the loan and, as you suggest, there would be reason for special vigilance if registered stocks are substituted for unregistered stocks soon after the loan is made, or on more than one occasion."

Approved unanimously.

Letter to the Presidents of all Federal reserve banks, reading as follows:

"In view of the transfer of the nonstatutory duties of the Federal Reserve Agents to the Federal Reserve banks, the Board's letters X-7425 dated April 29, 1933, and B-1125 dated December 26, 1935, are rescinded, and the reports to the Board
"referred to in those letters regarding indebtedness, and
outside business activities may be discontinued. It is
expected, however, that the reports to the boards of di-
rectors of the Federal Reserve banks regarding indebt-
ness and outside business activities of officers and of
employees occupying responsible positions will be con-
tinued and that in the future such reports will cover also
indebtedness and outside business activities of Assistant
Federal Reserve Agents and other employees of the Federal
Reserve Agents' departments occupying responsible positions.
The Board's examiners have instructions, in connection with
each examination of a Federal Reserve bank, to review the
reports referred to above and advise the Board of Governors
of any unusual situations presented thereby.

"The discontinuance of the reports previously made to
the Board and the cancelation of letters X-7425 and B-1125
does not, of course, reflect any modification of the posi-
tion previously expressed that officers and employees of
the Federal Reserve banks should refrain from being placed
in any position which might result in questions being raised
as to the independence of their judgment and their disinter-
estedness in the discharge of their official responsibili-
ties.

"The Board also feels that, in accordance with such a
principle, officers of the Federal Reserve banks and employ-
ees occupying responsible positions should not purchase
stock in a member bank or an affiliate thereof (except pos-
sibly in the case of affiliates where the actual relation-
ship to the member bank is remote) and that they should dis-
pose of any such stock which they may now have, or may here-
after acquire, as soon as practicable without undue hardship.
It is requested, therefore, that the annual reports of of-
ficers and employees to the board of directors regarding in-
debtedness and outside business activities also include in-
formation regarding the ownership of bank stock and stock
of affiliates of banks."

Approved unanimously.

Letter to Mr. William Prentiss, Jr., Acting Comptroller of the
Currency, reading as follows:

"In response to your letter of June 21, inclosing a
copy of a request received by your office from Senator
McAdoo in connection with his bill S. 2548, there is in-
closed a statement listing State bank members which on
"March 31, 1937 were controlled by 'holding company affiliates' as defined in Section 2(c) of the Banking Act of 1933, as amended. The statement shows the name and principal office of the holding company affiliate, the name and location of each State bank member controlled by a holding company affiliate, the total amount of capital stock (including capital notes and debentures) of the State bank member outstanding, and the amount of capital stock owned or controlled by the holding company affiliate.

"In view of the provisions of S. 2348, it is assumed that you will call Senator McAdoo's attention to the fact that the data furnished are taken from reports of 'holding company affiliates' of State bank members and that such reports do not contain information which would disclose the name of every member bank which would be affected by his bill. The principal reasons why the available data do not adequately cover the situation appear to be the following:

"1. Reports of corporations, business trusts or similar organizations which control State bank members are required only if such organizations are 'holding company affiliates' within the meaning of Section 2(c) of the Banking Act of 1933, as amended. The available reports, therefore, do not show the amount of stock of State bank members owned or controlled by corporations, business trusts, or similar organizations unless the stock so controlled amounts to more than 50 percent of the outstanding capital stock of the member bank or of the number of shares voted at the last election of directors, or unless the organization otherwise controls the election of the majority of the directors of the member bank, or unless all or substantially all of the capital stock of the member bank is held by trustees for the benefit of shareholders or members of such organization.

"2. If the controlling organization has been determined by the Board of Governors of the Federal Reserve System not to be engaged, directly or indirectly, as a business in controlling the stock of or managing or controlling banks, it is not a 'holding company affiliate' (except for the purposes of Section 23A of the Federal Reserve Act). In such a case, it is exempt from the requirement for the submission of reports as a 'holding company affiliate'. 
"5. In some cases the 'holding company affiliate' is a member bank. If so, it is not required to submit a report as a 'holding company affiliate'.

"4. In some instances the 'control' of a member bank by a holding company is subordinate to the control of the Reconstruction Finance Corporation by reason of the fact that the Reconstruction Finance Corporation owns the preferred stock of the member bank. In such a case the holding company is not a 'holding company affiliate' within the meaning of the law and is not, therefore, required to be reported by the member bank or to submit reports as a 'holding company affiliate'."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:

[Signature]

Chairman.