

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, October 9, 1952.

PRESENT: Mr. Martin, Chairman
Mr. Vardaman
Mr. Robertson

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary

Letter to the Board of Directors, The Summit Trust Company, Summit, New Jersey, reading as follows:

"As requested in your letter of September 24, 1952, and as recommended by the Federal Reserve Bank of New York, the Board of Governors has extended to May 22, 1953, the time within which you may establish a branch at New Providence, New Jersey."

Approved unanimously, for
transmittal through the Federal
Reserve Bank of New York.

Letter to Mr. Phelan, Vice President, Federal Reserve Bank of New York, reading as follows:

"This refers to your letter of October 2, 1952, and its enclosures, concerning the proposed issue by the International Bank for Reconstruction and Development of its Nineteen Year Bonds of 1952 due October 15, 1971 in an aggregate principal amount of \$60 million. In this regard you indicate that it is proposed to amend Schedule A of the Fiscal Agency Agreement dated as of February 6, 1950 between the International Bank and your Bank to include the bonds in question.

"The Board of Governors approves the contemplated undertaking by your Bank to act as Fiscal Agent with respect to the proposed bond issue and the execution in that connection by your Bank of an agreement with the International

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"Bank in the form or substantially in the form of Supplement No. 4 to the Fiscal Agency Agreement."

Approved unanimously.

Letter to Mr. Wiltse, Vice President, Federal Reserve Bank of New York, reading as follows:

"This refers to your letter of September 29, 1952, and its enclosures, presenting the question whether, in view of section 32 of the Banking Act of 1933, as amended, a director of a commercial bank which is a member of the Federal Reserve System would be precluded from serving at the same time as a director of an open-end investment company proposed to be organized in the State of New York by mutual savings banks in that State pursuant to a recent amendment to the New York law relating to savings banks. The investment company would be known as Institutional Investors Mutual Fund, Inc.

"Among the enclosures with your letter was a copy of a letter dated September 22, 1952, from Mr. M. F. McCarthy, Counsel for the Savings Banks Association of the State of New York. From Mr. McCarthy's letter it appears that the organization of the investment company in question is being undertaken by the New York mutual savings banks through the Savings Banks Association, and that it is contemplated that the directors of the proposed investment company will include certain trustees or officers of mutual savings banks who also are directors of commercial banks which are members of the Federal Reserve System. As Mr. McCarthy also points out, no mutual savings bank in New York is a member bank.

"You enclosed also a copy of the Savings Bank Law of New York, as amended. Under that law, it appears that, subject to the supervision of the New York Banking Board, mutual savings banks in that State may now invest in the stock of an investment company required to be registered under the Investment Company Act of 1940, as amended, but only if all of the stock of such investment company (other than that required to qualify directors) is owned by such banks. Briefly, other provisions of the New York law limit the investments of any such investment company to those which

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"are eligible for mutual savings banks, restrict the amount which any one mutual savings bank may invest in the stock of such investment company, and also restrict the amount which such investment company may invest in the stock of any corporation. In addition, the provision of the New York law similar to section 32 of the Banking Act of 1933 is made specifically inapplicable to any officer, director, or employee of any such investment company serving at the same time in any such capacity for a bank or trust company.

"In connection with the provision of New York law relating to the restriction on the ownership of the stock of an investment company of the kind proposed, you pointed out that, because individuals and organizations other than mutual savings banks are denied the right to own shares in such a company, there is automatically eliminated the question of the possibility, in the circumstances described, of influencing the investment policies of member banks or the customers of member banks. The same point is emphasized by Mr. McCarthy. This conforms to the Board's understanding of the effect of the New York law.

"Therefore, on the basis of the unusual facts and circumstances as presented and the Board's understanding thereof as outlined herein, the Board agrees with your view that the proposed simultaneous service by a director of a member commercial bank on the board of directors of the proposed investment company properly may be regarded as not within the area which Congress meant to protect under section 32 of the Banking Act of 1933, as amended, and that, consequently, such service would not be precluded by that statute. It is assumed, of course, that, except for its own stock, the proposed open-end investment company will not be primarily engaged in any activity covered by section 32.

"You will understand, of course, that the views herein should not be regarded as applicable if there should develop at any time additional facts or circumstances that might in any way necessitate a reconsideration of the matter."

Approved unanimously.

Letter to Mr. Diercks, Vice President, Federal Reserve Bank of Chicago, reading as follows:

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"Reference is made to your letter of September 18, 1952, in which you recommend favorable consideration of the request of City Bank, Detroit, Michigan, for authority under applicable provisions of its membership conditions to exercise all the fiduciary powers permitted to domestic banks under Michigan law. You make the further recommendation that favorable action on this request be contingent upon completion of commitments relating to an increase in the capital funds of the bank made in connection with its consolidation with the Peoples State Bank of Hazel Park, Michigan, and the establishment of a branch at Hazel Park.

"The commitment referred to contemplated the introduction of not less than \$500,000 of new funds into the capital structure of the City Bank within six months from December 8, 1951. In your letter of May 20, 1952, you advised that President Verhelle proposed to declare a 10 per cent stock dividend amounting to \$120,000 and sell \$180,000 par value of new common stock at a premium of \$270,000. Although such plan would have added but \$450,000 of new capital funds, you were inclined to accept the arrangement as substantial compliance with the original proposal for strengthening the bank's capital structure. Subsequent correspondence indicates that the bank's capital has been increased from \$1,200,000 to \$1,320,000 by means of the proposed stock dividend, but there is no indication that any steps have been taken by the bank for the sale of new common stock. It is assumed, therefore, that your conditional recommendation relates to the proposed sale of common stock for \$450,000.

"While we concur completely in your recommendation that fulfillment of the earlier commitment to augment capital funds should be a condition precedent to a grant of permission to exercise full statutory trust powers, it is not the practice of the Board to grant such authority on a conditional basis and, in this case, there appears no compelling reason why an exception should be made. In fact, the manner in which the limited authority previously approved was exceeded and the failure to properly organize and supervise trust department activities, raise doubts as to whether any broadening of the bank's authority in this field would be warranted even though the commitment of the management with respect to capital had been fulfilled. In the circumstances, consideration of this

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"application is being deferred until such time as the Federal Reserve Bank advises the Board that the bank's capital has been augmented as proposed and submits a new recommendation on this case.

"There is also enclosed a letter addressed to City Bank, Detroit, Michigan, which you are requested to forward to the member bank, concerning the ultra vires acceptance and administration of several trustee appointments with a resulting violation of condition of membership numbered one, and by which the Board grants permission to the City Bank to administer the specific appointments in order that the existing violation of the condition of membership may be eliminated. A copy of this letter is also enclosed for your files."

Approved unanimously, together
with the following letter to the
Board of Directors, City Bank, De-
troit, Michigan.

"On June 27, 1951, paralleling similar action by the Michigan State Banking Department, the Board granted to the City Bank, under applicable provisions of its condition of membership numbered one, permission to act as Escrow Agent, Fiscal Agent, Dividend Disbursing Agent, Transfer Agent, and Registrar of stocks and bonds. It has come to the attention of the Board that subsequent to the grant of this limited authority the bank accepted three appointments as indenture trustee for corporations and three appointments as trustee for pension trusts. In addition, the bank is acting as trustee of the profit sharing and benefit fund created for its own employees. These appointments are re-cited in more complete detail as follows:

Succ. Tr. u/ind. d. 1-1-46 Barlum Tower Corporation
Succ. Tr. u/ind. d. 4-1-39 Indian Village Manor Company
Succ. Tr. u/supp. ind. d. 12-31-39 8700 Second Boulevard
Company
Succ. Tr. u/agmt. d. 10-17-50 Production Steel Company
and Production Steel Coil, Inc. Pension Trust
Succ. Tr. u/agmt. Production Seneca Steel Co. Pension
Trust
Trustee u/agmt. d. 12-1-51 Howard Flint Ink Co. Profit
Sharing and Benefit Plan
Trustee u/agmt. d. 12-22-50 City Bank Profit Sharing and
Benefit Fund.

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"The acceptance and administration of these trusts represent actions beyond the scope of the limited fiduciary authority granted to the City Bank on June 27, 1951, and result in violation of its condition of membership numbered one.

"The Board regards most unfavorably actions of this kind taken in disregard of the scope of the authority conferred. Nevertheless it is desirable that the existing violation of the condition of membership be eliminated in the most practicable manner. Therefore, the Board now grants permission to the City Bank to act as trustee in the specific cases noted in this letter with the understanding that no additional appointments be accepted other than of the kinds heretofore described in the original grant of limited authority unless and until broader fiduciary authority is granted by the Board."

Letter to the Board of Directors of the Bank of Utah, Ogden, Utah, stating that, subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of San Francisco. The letter also contained the following paragraphs:

"In connection with the granting of deposit insurance, it is noted that the Federal Deposit Insurance Corporation prescribed conditions requiring your bank to have a paid-in capital structure of not less than \$500,000, including not less than \$250,000 common capital and \$100,000 surplus; that the bank have not less than \$65,000 fidelity protection covering all active officers and employees; and that the directors agree to maintain fidelity coverage at all times conforming to schedules recommended by the American Bankers Association. As a member of the Federal Reserve System, the Bank of Utah will be expected to comply with these conditions.

"It is noted that under its articles of incorporation the bank has authority to conduct a general trust business but that at the present time it is not contemplated that this authority be exercised. Should the bank at any future time

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"desire to broaden the scope of its corporate activities or exercise any powers not exercised at the time of admission to membership it will be necessary, under condition of membership numbered 1, to obtain permission of the Board of Governors."

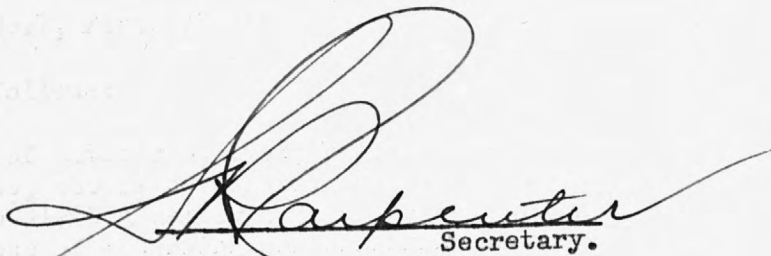
Approved unanimously, for
transmittal through the Federal
Reserve Bank of San Francisco.

Letter to the Honorable, The Comptroller of the Currency,
Treasury Department, Washington, D. C., reading as follows:

"This refers to our letter of August 15, 1952, requesting that a supplemental order for printing 45,000,000 sheets of Federal Reserve notes during the fiscal year ending June 30, 1953, be placed with the Bureau of Engraving and Printing. It is respectfully requested that 20,000 sheets of this total be allocated to notes of the Federal Reserve Bank of Atlanta, as shown below:

<u>Denomi- nation</u>	<u>Number of sheets</u>	<u>Amount</u>
\$50	20,000	\$12,000,000"

Approved unanimously.


Secretary.