Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, January 14, 1953. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Evans
Mr. Mills
Mr. Robertson

Mr. Carpenter, Secretary

Chairman Martin stated that he had received advice that the first meeting of the consultative group, to which reference was made in the letter approved at the meeting of the Board on November 28, 1952, to Mr. Gorrie, Chairman of the National Security Resources Board, would be held on Friday, January 16, 1953. He also stated that it would not be possible for him to attend the meeting and that it had been suggested that the Board ask Mr. Bethea, Director of the Division of Administrative Services, to attend.

This suggestion was approved unanimously.

It was agreed unanimously that Mr. Young, Director of the Division of Research and Statistics, should accept an invitation which he had received to speak before a joint session of the Michigan State Building and Loan Association and the directors of the Federal Home Loan Bank of Indianapolis, to be held at Ann Arbor, Michigan, on March 24, 1953, on the general subject of Federal Reserve instruments of credit policy and the current credit situation.
Chairman Martin referred to a request received from the Senate Banking and Currency Committee under date of January 12, 1953, for a report on S. 76, a bill to define bank holding companies, control their expansion, and to require the divestment of nonbanking assets, which was introduced in the Senate by Senator Robertson on January 7, 1953. He stated that he had been informed that, while the Committee would have hearings on the bill, it would be several weeks before the hearings would be held, and that he would suggest that the Board have a discussion of the bank holding company problem, after which its views on the Robertson bill could be stated in a report to be sent to the Senate Banking and Currency Committee in response to its request.

In accordance with Chairman Martin's suggestion, it was agreed unanimously that the matter should be placed on the agenda for discussion at the meeting of the Board on January 22, 1953.

Governor Robertson stated that he had been invited to attend a meeting of representatives of the American Bankers Association and the independent banker groups at which holding company legislation was to be discussed, but that his views on the subject were well known and he did not plan to attend.

Chairman Martin reported on a telephone conversation this morning with Mr. Anderson, formerly Deputy Chairman of the Federal
Reserve Bank of Dallas, in which the latter recommended Mr. George L. MacGregor, Chairman of the Board, President and General Manager, Dallas Power and Light Company, Dallas, Texas, and formerly a Class B director of the Dallas Bank, as his first choice, and Mr. Robert J. Smith, President of Pioneer Airlines Inc., Dallas, Texas, as his second choice, for appointment by the Board as Class C director of the Dallas Bank for the unexpired portion of the term ending December 31, 1954. Chairman Martin also said that Mr. Parten, Chairman of the Federal Reserve Bank of Dallas, had recommended these two men for consideration by the Board, that Mr. Parten was expected to be in Washington in the near future, and that the matter would be discussed further with him at that time.

Governor Szymczak presented a draft of letter to all Federal Reserve Banks asking for their views on two enclosed staff memoranda dealing with (1) requests to broaden the "subscription rights" provisions of Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, and (2) the application of Regulation U to bank financing of investment trust shares. The draft indicated that the Federal Reserve Banks might also discuss the matters with representatives of the financial community.

There was concurrence in the suggestion of Governor Mills that
the letter be confined at this time to a request for the views of the Federal Reserve Banks, since a discussion of the matters with banks and others probably would result in recommendations from those sources that the regulations be liberalized.

The letter was amended in accordance with Governor Mills' suggestion and was approved unanimously in the following form:

"There are attached two staff memoranda dealing with special problems that have recently arisen in connection with Regulations T and U, as follows:

1. Requests to Broaden 'Subscription Rights' Provisions of Regulations T and U

2. Bank Financing of Investment Trust Shares.

"The Board would appreciate it if, as soon as practicable, you and your staff could review the memoranda and let us have the benefit of your views on these subjects. Please do not discuss these matters with anyone outside your own organization."

"In connection with the problem of bank financing of investment trust shares, it would be especially helpful if you could throw some light on the prevalence of this practice or of plans for instituting the practice in your District. We would also be particularly interested in any information relating to this problem which may have come to the attention of your examiners."

Governor Mills stated that in accordance with the decision at the meeting of the Board on December 18, 1952, an invitation had been extended to members of the Credit Policy Commission of the American Bankers Association to have luncheon with the Board on March 9, with the understanding that following the luncheon representatives of the Division of Research and Statistics would present a discussion of the current economic situation.
Governor Robertson stated that he had received an invitation to speak at a meeting of the Country Bank Operations Commission of the American Bankers Association in Louisville, Kentucky, on March 20 and that in the absence of objection by the Board he would make the talk.

It was agreed unanimously that Governor Robertson should accept the invitation.

Chairman Martin stated that the official opening of the new building of the Detroit Branch of the Federal Reserve Bank of Chicago would take place about the middle of April, that in connection with that occasion he had been invited to make a talk before the Economic Club of Detroit, and that he had accepted the invitation. He said that he felt the official opening of the branch building was an occasion which might be used by the Board for an "institutional address" on the role of the Federal Reserve System and that, if the other members of the Board concurred, he would suggest that appropriate members of the staff be requested to begin working on a carefully prepared talk which would serve that purpose.

Chairman Martin's suggestion was approved unanimously.

Governor Mills stated that there had been considerable thought given to the responsibility of the Federal Reserve Banks in the System's research program, that in his visits to some of the Federal Reserve Banks this matter had been discussed, and that, if agreeable to the Board, he planned to visit other Federal Reserve Banks in the spring, in company with Mr. Young,
Director of the Division of Research and Statistics, or Mr. Noyes, Assistant Director of that Division, for the purpose of getting the Banks' views on the part that the Federal Reserve Banks should play in the research program of the System and how the program might be developed to enable the System most effectively to discharge its responsibilities in this field.

The members of the Board were in unanimous agreement with Governor Mills' proposal.

In connection with the above matter, Governor Robertson expressed the view that it should be the policy of the Board to have a representative from the Divisions of Research and Statistics, Bank Operations, Personnel Administration, and Examinations visit each Federal Reserve Bank at least once each year for the purpose of becoming as thoroughly familiar as possible with the operations of the Banks in which the respective divisions are interested.

This matter was discussed briefly and the members of the Board indicated agreement with Governor Robertson's suggestion.

Governor Robertson reported for the information of the other members of the Board on his discussion in St. Louis last week with President Johns and Vice President Peterson, of the St. Louis Reserve Bank, concerning steps that might be taken to improve the function of bank supervision at the Reserve Bank and to maintain an adequate staff of qualified examiners.
Governor Robertson also said that Mr. Molony, Assistant to Mr. Thurston, accompanied him on his visit last week to the Federal Reserve Bank of St. Louis, that Mr. Molony had been able to get a better understanding of what the Federal Reserve Banks do, and that it was his (Governor Robertson's) view that it would be extremely helpful if members of the staff could accompany members of the Board on their visits to the Reserve Banks.

Governor Robertson then referred to the hearing under section 30 of the Banking Act of 1933 which was to have been held on January 26, 1953, pursuant to the actions taken by the Board on November 17 and December 9, 1952, at which certain officers and directors of the City National Bank of Fort Smith, Fort Smith, Arkansas, would have been given an opportunity to show cause why they should not be removed from office. He said that, according to advice received by telephone from the Office of the Comptroller of the Currency, it appeared that arrangements were being made for President and Director H. S. Nakdimen, the majority stockholder, to sell his stock to an insurance company and that the management of the bank was to be changed. In the circumstances, he said, it appeared that the hearing would not be necessary.

Governor Robertson outlined the circumstances surrounding an application for the establishment of a national bank in Mission, Kansas, and why in his opinion the Board, in response to a request received from
the Deputy Comptroller of the Currency under date of January 5, 1953, for a recommendation as to whether the application should be approved, should not make a favorable recommendation.

The matter was discussed in the light of the existing practice under which the Comptroller of the Currency requests the views of the Board and the Federal Deposit Insurance Corporation on applications for national bank charters, and Governor Robertson stated that he would suggest that a draft of letter to the Comptroller of the Currency, which had been prepared in the Division of Examinations, be revised to state the reasons why the Board did not wish to make a favorable recommendation in this case and that the revised draft be considered by the Board as promptly as possible.

This suggestion was approved unanimously.

At this point Mr. Vest, General Counsel, joined the meeting.

Mr. Vest stated that Mr. Bryan, President of the Federal Reserve Bank of Atlanta, had just called him on the telephone to say that he was concerned because of the loss of reserves by the Atlanta District in the recent period, that he did not want a situation to exist in which the Federal Reserve Bank of Atlanta would have a lower discount rate than another Federal Reserve Bank even for a few days, and that he would like to know whether it would be permissible as a legal matter for the Bank's
directors to take action to reestablish the existing schedule of rates in effect at the Bank subject to the condition that, as of the date a higher rate was established by any other Federal Reserve Bank, the higher rate would immediately become effective at the Federal Reserve Bank of Atlanta.

In the discussion of this question, it was not clear whether Mr. Bryan knew that other Federal Reserve Banks had already acted to increase their discount rate, and Governor Robertson suggested that, in order that the boards of directors of all of the Banks which had not taken action might have the benefit of all developments in connection with the problem of changes in discount rate, they should be informed of the fact that certain of the Federal Reserve Banks had already taken action.

The other members of the Board concurred in this suggestion, and it was agreed unanimously that Chairman Martin should call the Presidents of the Federal Reserve Banks of Boston, New York, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, Dallas, and San Francisco and inform them that the Federal Reserve Banks of Philadelphia, Cleveland, and St. Louis had acted to increase their discount rate to 2 per cent, that the Board had not approved the increases and that there was no commitment on its part to do so, but that there was a very real possibility that such approval would be given on January 15 when the matter would be considered by the Board. There was agreement that, when given
this information, the board of directors of the Atlanta Bank would be in a position to act to increase the discount rate at that Bank to become effective on the first business day following approval by the Board, with the understanding that the Board would not approve the higher rate for the Atlanta Bank unless at the same time it also approved the higher rates established by the boards of directors of other Federal Reserve Banks.

The meeting then adjourned. During the day the following additional action was taken, with all of the members of the Board except Governor Vardaman present:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on January 13, 1953, were approved unanimously.

Signed,

[Signature]

Secretary