

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, April 17, 1953. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Sloan, Director, Division of Examinations
Mr. Allen, Director, Division of Personnel Administration

Governor Robertson presented a preliminary statement, prepared in the Division of Examinations, indicating that out-of-pocket expenses incident to conducting the first three sessions of the Inter-Agency Bank Examination School totaled approximately \$2,500. The statement, drawn up pursuant to a suggestion made by Governor Evans at the meeting on March 31, 1953, showed that about \$2,200 of the total was chargeable equally to the three Federal bank supervisory agencies while approximately \$300 represented the cost of luncheons, receptions and other items which it was felt should be absorbed by the Board in entirety. Governor Robertson stated that work was proceeding on an estimate of salary and related expenses chargeable to the school and that a complete statement would be submitted within the near future.

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There was a discussion, at the instance of Governor Szymczak, concerning articles which had appeared in the press relative to the complaint issued by the Board on March 27, 1953, under section 9 of the Federal Reserve Act against Devon-North Town State Bank, of Chicago, Illinois, and the proceeding begun by the Federal Reserve Bank of Chicago under section 30 of the Banking Act of 1933 to require the president of the bank, Mr. Henry J. Beutel, to show cause why he should not be removed from office. Governor Robertson reviewed the circumstances under which certain information was released to the press by the Board's staff and stated that arrangements had been made so that in the future no information regarding bank supervisory matters would be given to the press without prior consultation with Chairman Martin, Mr. Thurston, Assistant to the Board, or himself. Although he would have been inclined to withhold the information in this instance, Governor Robertson said, its publication appeared to have had the desirable effect of indicating to the State bank supervisors who visited the Board's offices yesterday that the Board was prepared to take action without delay against a State member bank when the circumstances warranted.

Reference was made to the agenda which had been prepared for the meeting of the Conference of Chairmen of the Federal Reserve Banks, scheduled to be held in Washington on April 28, 1953.

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Following a discussion, unanimous approval was given to the agenda, with the understanding that revisions might be made if necessary or desirable.

In a discussion of the prospective attendance at the meeting, the Secretary stated that Mr. McCormick, Chairman of the Chairmen's Conference, had expressed the view that it would be better to invite the two newly-appointed Class C directors who are not Chairmen or Deputy Chairmen to one of the regular meetings of the Conference rather than the forthcoming meeting, which would be devoted to only one subject.

Governor Robertson then suggested that the two newly-appointed Class C directors who are not Chairmen or Deputy Chairmen be invited to visit the Board on some date subsequent to the forthcoming meeting of the Chairmen's Conference, along with any other newly-appointed Class C directors who are serving as Chairmen or Deputy Chairmen but who might be unable to attend the meeting on April 28.

There was general agreement with this suggestion.

Chairman Martin then referred to a draft of statement dealing with the problem of salaries of Reserve Bank Presidents and First Vice Presidents which had been prepared for presentation by him at the opening of the executive session of the meeting on April 28. Copies of the draft had been handed to the members of the Board prior to this meeting.

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The draft was approved unanimously, with changes in language suggested during a discussion and with such additional changes in language as Chairman Martin might wish to make prior to the meeting of the Chairmen's Conference.

At this point Mr. Sherman, Assistant Secretary, entered the room.

Question was raised whether it would be desirable to send copies of the above-mentioned statement to the Chairmen of the respective Reserve Banks prior to the meeting of the Chairmen's Conference but it was agreed that this should not be done.

Attention then was called to a portion of the statement which indicated that the Board had been working on a statement which might be adopted by the boards of directors of the Reserve Banks and the Board of Governors with respect to the qualifications of Presidents and First Vice Presidents and that, although the statement had not been approved by the Board, copies were to be distributed to those present at the April 28 meeting as a basis for discussion. It was recalled that the Board had given preliminary consideration to the statement of qualifications at the meeting on February 24, 1953, and that it was understood at the meeting on March 9, 1953, that the matter would be discussed further before the meeting of the Chairmen's Conference.

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Chairman Martin suggested that in the circumstances, there be a further discussion of the statement at the meeting on Friday, April 24, at which time consideration would also be given to the information which was sent to the members of the Board with Mr. Carpenter's memorandum of April 10, 1953, having to do with salaries of Reserve Bank officers.

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, St. Louis, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Banks of Boston and St. Louis on April 13, by the Federal Reserve Bank of San Francisco on April 14, and by the Federal Reserve Banks of New York and Philadelphia on April 16, 1953, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

The members of the staff then withdrew and the Board went into executive session.

Thereafter, the Secretary was informed by the Chairman that because of the greatly increased demand for parking space in the Board's garage, it was agreed that space in the garage would not be made available hereafter to secretaries to members of the Board but

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that the new policy would not apply to secretaries now using such space.

The meeting then adjourned. During the day the following additional actions were taken by the Board with all of the members present:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 16, 1953, were approved unanimously.

Letter to the Board of Directors, The County Trust Company, White Plains, New York, reading as follows:

"The Board of Governors approves the establishment and operation of a branch by The County Trust Company in Croton on Hudson, New York, such branch to be established in the bank building now occupied by The First National Bank of Croton on Hudson, provided: (a) the merger with the national bank is effected substantially in accordance with the terms of a merger agreement dated March 24, 1953, a copy of which accompanied your application for authority to establish the branch, and (b) formal approval is obtained from the appropriate State authorities."

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

Letter to the Board of Directors, First State Bank, Greene, Iowa, 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 Chicago.

The letter also contained the following paragraph:

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"It appears that the bank is authorized to exercise trust powers but that such powers are not being exercised at this time. Attention is invited to the fact that if the bank should desire to exercise any powers not actually exercised at the time of admission to membership, it will be necessary, under condition of membership numbered 1, to obtain the permission of the Board of Governors before exercising them. In this connection, the Board understands that there has been no change in the scope of corporate powers exercised by the bank since the time of its application for membership."

Approved unanimously, for transmittal through the Federal Reserve Bank of Chicago, together with a letter to Mr. Young, President of the Reserve Bank, containing the following paragraph:

"With respect to the excess balance carried in the Hardin County Savings Bank of Eldora, Iowa, noted in the report of examination, it is assumed that you will follow to a successful conclusion the matter of bringing such balance into conformity with Section 19 of the Federal Reserve Act."

Letter to Mr. A. J. Gock, Chairman of the Board of Directors, Bank of America, c/o Bank of America National Trust and Savings Association, 300 Montgomery Street, San Francisco, California, reading as follows:

"There are enclosed two copies of the report of examination of Bank of America, New York, New York, made as of October 31, 1952 by examiners for the Board of Governors of the Federal Reserve System. The second copy of the report is for the information and files of Mr. Henry A. J. Ralph, Vice President and Manager in charge of the Home Office in New York.

"After the report has been presented to your directors for their consideration, please advise the Board of Governors regarding the actions taken or contemplated with respect to

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"the various recommendations and suggestions of the examiner, particularly as set forth on pages 10-14 and on page 57. Any comments you may care to make with regard to the operations of the Bank as disclosed by the report of examination will also be appreciated.

"At the previous examination as of November 30, 1951, the Board's examiner reported that the Bank had exceeded the limitations under the provisions of Section XIII of Regulation K with respect to the individual limitations in the cases of three foreign bank clients for whom acceptances had been executed.

"The examiner again reports that your Bank had exceeded the limitations with respect to acceptances executed for two of your foreign bank clients, Banco de Chile and Banco di Napoli.

"It is noted from the call report of your Bank as of December 31, 1952 that you had no customers for whom the total acceptance liability was in excess of 10 per cent of subscribed capital and surplus. Accordingly, it is assumed that any excess amount of unsecured acceptances at the time of the examination will have been corrected by your recent increase in capital and surplus, if such excess had not been otherwise eliminated.

"However, for your information and guidance with respect to the limitations on acceptances for individual drawers, it is the view of the Board that no acceptances should be made for any one account in an amount equal at any time in the aggregate to more than 10 per cent of the subscribed capital and surplus of a banking corporation organized under the provisions of Section 25(a) of the Federal Reserve Act, unless the bill or draft to be accepted be (a) fully secured or (b) represents an exportation or importation of commodities and is guaranteed by a bank or banker of undoubted solvency in addition to the obligation of the customer for whom the acceptance is made.

"The consideration of your request for permission to act as fiscal agent in connection with certain Costa Rican bonds outstanding in the United States has emphasized the existence of questions with respect to a number of the

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"activities carried on by your Bank, including some to which reference is made in the report of examination. Accordingly, the entire problem of the proper scope of activities of corporations organized under Section 25(a) of the Federal Reserve Act is being reviewed with particular reference to activities in the United States. You will be advised regarding your request concerning Costa Rican bonds outstanding in the United States, and possibly also certain activities in which your corporation is already engaged, when that study has been completed."

Approved unanimously, together with the following letter to Mr. Sproul, President of the Federal Reserve Bank of New York, and a similar letter to Mr. Earhart, President of the Federal Reserve Bank of San Francisco:

"A copy of the report of examination of Bank of America, New York, New York, as of October 31, 1952, is being sent to that institution, and there is enclosed a copy of the letter of transmittal to Mr. A. J. Gock, Chairman of the Board of Directors of Bank of America.

"The copy of this report which was sent to you with Mr. Sloan's letter of March 13, 1953, may be retained for your files. When the confidential memorandum which was also included with that letter has served your purpose, please return it. Any comments you may care to make with regard to the operations of the Bank as disclosed by the report of examination will be appreciated.

"In connection with the study mentioned in the last paragraph of the transmittal letter, two copies of each of the following memoranda which have been prepared by the Board's Legal Division are enclosed for your information:

1. Activities of Edge Corporations which are appropriate or inappropriate in the United States. (This summarizes the principles indicated in the other memoranda, and attempts to apply them to various kinds of transactions in the United States.)

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"2. Powers of Edge Corporations in the United States.

3. Summary of Past Consideration by the Board of Business of Edge Corporations in the United States.

4. Past Consideration by the Board of Business of Edge Corporations in the United States.

5. Congressional Discussion of Powers of Edge Corporations in the United States.

"These memoranda have not been acted upon by the Board, and it will be appreciated if you will give careful consideration to the entire problem and at your early convenience let the Board have the benefit of your considered judgment and recommendations on all phases of the subject, including both legal and policy aspects."

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

"This refers to your letter of March 31, 1953, enclosing a copy of a letter from the firm of Sullivan & Cromwell with respect to the waiver of reports and examinations of foreign affiliates of the Belgian-American Bank & Trust Company, which is in process of organization.

"The Board, in its letter of February 24, 1953, determined that Banque de la Societe Generale de Belgique, Brussels, Belgium, would not be deemed to be a holding company affiliate (except for the purposes of section 23A of the Federal Reserve Act) of the Belgian-American Bank & Trust Company, if that company should become a member bank. This determination, however, would have no effect upon the status of affiliates of the member bank. Therefore, all corporations controlled by Banque de la Societe Generale de Belgique, including foreign banks, would be subject to the provisions of section 9 of the Federal Reserve Act with respect to reports and examinations of affiliates.

"It is provided in section 9 of the Federal Reserve Act that every State member bank shall furnish not less than three reports yearly of each of its affiliates. However, pursuant to authority contained in section 21 of the Federal Reserve Act, the Board has waived this requirement in the case of all

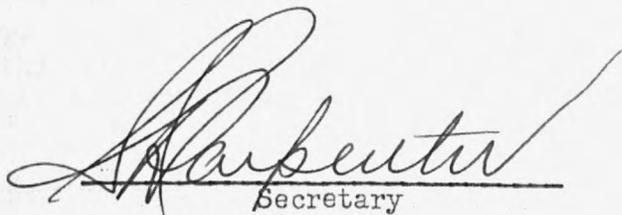
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"affiliates which are not indebted to a member bank or are indebted only to a limited extent. Therefore, it appears probable that in the instant case the member bank would not have to furnish reports of these foreign affiliates.

"The situation with respect to examinations of affiliates is different. Section 9 only requires such examinations as shall be necessary to disclose fully the relations between the member bank and its affiliates and the effect of such relations upon the affairs of the bank. Although section 21 also authorizes the Board to waive examination of affiliates, the Board is not disposed to do so since, under the law, they are required to be made only when necessary. It is noted that you have advised the interested parties that it has not been the custom for your bank to conduct examinations of affiliates located in foreign countries.

"Accordingly, the Board is unwilling to comply with the request that all reports and examinations of the foreign affiliates of the Belgian-American Bank & Trust Company be waived. However, it is believed that an explanation of the practical situation will demonstrate to the firm of Sullivan & Cromwell that these requirements would not prove to be overly burdensome to the institutions involved."

Approved unanimously.


Secretary