

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, May 13, 1953. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Boothe, Administrator, Office of Defense Loans
Mr. Hackley, Assistant General Counsel
Mr. Noyes, Assistant Director, Division of Research and Statistics

Chairman Martin stated that pursuant to the understanding at the meeting of the Board yesterday Mr. Riefler had briefed him on the discussion relative to a proposed increase in the maximum permissible rate of interest on loans under Regulation V, but that he (Chairman Martin) would prefer that further consideration of this matter by the Board be deferred for a later meeting.

Following a brief discussion, it was agreed unanimously that the matter would be taken up again at a time to be fixed by the Chairman.

5/13/53

-2-

Messrs. Vest, Boothe, Hackley, and Noyes then withdrew from the meeting.

There was presented a bill in the amount of \$2,693.55, including out-of-pocket expenses totaling \$193.55, submitted by Arthur Andersen and Co. for services rendered in connection with the audit of the accounts of the Board of Governors for the year ended December 31, 1952.

Approved unanimously.

Governor Mills referred to the understanding at the meeting on April 23, 1953, that he would undertake, with the assistance of such members of the staff as he might desire, a study of reserve requirement plans preliminary to further consideration by the Board. After a review of the progress of the study, in which he said that emphasis was being placed upon the so-called uniform reserve plan and that Mr. Horbett, Assistant Director, Division of Bank Operations, and Mr. Koch, Chief of the Banking Section in the Division of Research and Statistics, were bringing the previous study of the plan up to date, Governor Mills said that it had been suggested that the Association of Reserve City Bankers might be approached to see whether it would care to sponsor an independent study, the thought being that if such a study were tied to the one being made within the System it might have broader acceptance than anything the System might produce independently.

5/13/53

-3-

Governor Mills indicated that he had no fixed views with regard to this suggestion, that he feared the Board might be placed in a somewhat difficult position if it took exception to the conclusions reached by outside parties whose advice it had solicited, but that he felt the idea was worthy of discussion.

In further comments on the suggested procedure, Mr. Young said he had in mind that the Association of Reserve City Bankers, through its banking research fund, might organize and pay the expenses of a study group made up of economists outside of the Federal Reserve System and perhaps some representatives from the Association itself. In response to a question by Governor Robertson as to what advantages he perceived in such a concurrent study, as opposed to a procedure whereby the System would complete its own study and then submit a plan to the bankers with the statement that their suggestions would be welcomed, Mr. Young said that he felt that the outside group would have to come to the uniform reserve plan, or something close to it, and that the outside study might go forward along with the System study with exchanges of views from time to time. It was his view that if the results of the two studies revealed general agreement on fundamental principles, the cognizant Congressional committees could approach the subject with the feeling that the basic principles were not controversial and that any

5/13/53

-4-

points of difference in the Government and non-Government recommendations related to technical details.

At the conclusion of a discussion, it was agreed unanimously that any decision to initiate a study by an outside group would be deferred until later in the year when the matter might be considered again.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on May 12, 1953, were approved unanimously.

Memorandum dated May 7, 1953, from Mr. Bethea, Director, Division of Administrative Services, stating that the Retirement System of the Federal Reserve Banks had approved the application of Clara R. Cooke, Charwoman in that Division, for retirement on account of disability, effective May 1, 1953.

Noted.

Letter to Mr. Pondrom, Vice President, Federal Reserve Bank of Dallas, reading as follows:

"The Board of Governors of the Federal Reserve System has considered the recommendation of the Discount Committee of your Bank, contained in your letter of May 1, 1953, and, pursuant to the provisions of

5/13/53

-5-

"Section 19 of the Federal Reserve Act, grants permission to American National Bank of Houston, Houston, Texas, to maintain the same reserves against deposits as are required to be maintained by banks outside of central reserve and reserve cities, effective with the first semi-monthly reserve computation period beginning after the date of this letter.

"Please advise the bank of the Board's action in this matter, calling its attention to the fact that such permission is subject to revocation by the Board of Governors of the Federal Reserve System."

Approved unanimously.

Letter to the Federal Deposit Insurance Corporation, Washington,

D. C., reading as follows:

"Pursuant to the provisions of section 4(b) of the Federal Deposit Insurance Act, the Board of Governors of the Federal Reserve System hereby certifies that First State Bank, Greene, Iowa, became a member of the Federal Reserve System on May 11, 1953, and is now a member of the System. The Board of Governors of the Federal Reserve System further hereby certifies that, in connection with the admission of such bank to membership in the Federal Reserve System, consideration was given to the following factors enumerated in section 6 of the Federal Deposit Insurance Act:

1. The financial history and condition of the bank,
2. The adequacy of its capital structure,
3. Its future earnings prospects,
4. The general character of its management,
5. The convenience and needs of the community to be served by the bank, and
6. Whether or not its corporate powers are consistent with the purposes of the Federal Deposit Insurance Act."

Approved unanimously.

5/13/53

-6-

Letter to Mr. Merle E. Selecman, Executive Manager, American Bankers Association, 12 East 36th Street, New York, New York, reading as follows:

"This refers to your letter of March 27 addressed to Chairman Martin proposing a reconsideration by the Board of the provisions of section 11(a), Regulation F, as they relate to the acquisition of stock of a national bank through the exercise of subscription rights received in connection with shares of such stock which the bank holds as trustee or in other fiduciary relationships. The reconsideration which you have suggested is prompted by a conflict between the subject provisions of Regulation F and a Texas statute which permits a trust institution to exercise subscription rights, under certain conditions, to acquire additional shares of its capital stock for its fiduciary accounts.

"Section 11(a) prohibits the investment of funds received or held by a national bank as fiduciary in stock or obligations of the bank. Footnote numbered 12 to this section makes its provisions inapplicable to transactions which are either expressly required by the terms of a trust instrument or are specifically authorized by court order. In a ruling dated January 3, 1946, the Board has also expressed the view that the provisions of section 11(a) would not prohibit a national bank from exercising subscription rights to acquire additional shares of its own stock for trust investment provided the amount so invested was limited to that realized from the sale of other rights received in connection with the same offering.

"In your letter you suggest that the acquisition of shares through the exercise of rights is related to the question of propriety of the retention of shares upon which such rights are issued and that there has been developing a substantial body of law strengthening the propriety of the retention by a national bank of shares of its own stock when held in a fiduciary capacity under authority of a general retention clause. While some recent court decisions seem to have supported the retention of shares of stock of a

5/13/53

-7-

"trustee bank under a general or specific retention authorization, the decisions on these questions have varied with the facts and circumstances peculiar to the individual cases. We find no trend in the decisions clearly favorable to the retention of shares of stock of a trustee bank in fiduciary accounts in the absence of specific direction to retain such investment. Also, the law applicable to the exercise of subscription rights with respect to such shares appears even less clear.

"The rule of undivided loyalty is so firmly fixed in fiduciary undertakings that any generalized action which would relax or tend to weaken the rule should be approached most cautiously despite the cogency and practicality of some arguments supporting a more liberal position on the particular matter under review. In reconsidering this question, the Board is impressed with the principle that a trustee ought not to place itself in a position where its own interests may conflict with those of the trust beneficiaries; that the existence of such a potential conflict places too great a burden upon the trustee concerning important administrative decisions, precluding the exercise of wholly independent and disinterested judgment, and presents both the opportunity and the temptation to use the shares so held for self-serving purposes. It is believed that amendment of existing provisions of Regulation F to permit the exercise of rights with respect to shares of stock of a trustee national bank in the absence of an express requirement or direction may contribute to more difficult and burdensome administrative problems than would be solved by such action. Important among these may be cited the likelihood of an accelerated increase in the holdings of such stock by a trustee bank, perhaps to undesirable proportions, and the influence which such shareholdings may have at the time of important corporate actions including the use to which they may be put in insuring the success of needed capital financing by the bank.

5/13/53

-8-

"In view of all considerations, it is believed that existing provisions of the Regulation permitting the acquisition of shares of stock of a bank for fiduciary accounts where such an investment is expressly required by the controlling instrument or by order of a court are as liberal as should be permitted."

Approved unanimously.

Letter for the signature of the Chairman to Mr. Evans Clark, Director, The Twentieth Century Fund, 330 West 42nd Street, New York, New York, reading as follows:

"Thank you for your letter of April 15 concerning the Twentieth Century Fund's interest in a study of bank holding companies, their operations in the United States, and their effect on the economy, and the suggestion that the Board of Governors might be interested in undertaking such a study.

"In view of the Board's supervisory interest in the bank holding company field, the Board does accumulate information on these companies and from time to time prepares studies of special phases of the bank holding company development. The Board has not, however, considered making a general descriptive and appraisal study for the general information of the public, and believes, because of various controversial aspects of the subject, that such a study might better be prepared under the auspices of some independent, nonprofit research agency, such as the Fund or the Financial Research Program of the National Bureau of Economic Research. In the event that a study of the kind in mind were independently sponsored, such of the information gathered by the Board's staff over the years as may properly be released for the purpose might be made available for use of the research experts engaged in the study. The Board welcomes opportunities to cooperate with university and other scholars in this way.

5/13/53

-9-

"Dr. Ralph A. Young of the Board's Division of Research has consulted with the Fund's economist, Dr. J. Frederick Dewhurst, and advised him of the substance of this reply."

Approved unanimously.

Letter to Mr. Stuart H. Mann, Vice President, First National Bank, Louisville, Kentucky, reading as follows:

"This is in response to your letter of May 5, 1953, in which you inquire whether your bank may pay interest on a certificate of deposit for a six months' period following the date of its maturity, during which period the instrument was not renewed.

"The following provision in paragraph (f) of section 3 of the Board's Regulation Q, a copy of which is enclosed, appears to cover the situation which you describe:

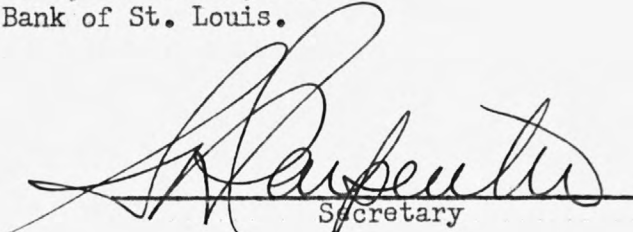
'... After the date of maturity of any time deposit, such deposit is a demand deposit, and no interest may be paid on such deposit for any period subsequent to such date.'

This provision is based on section 19 of the Federal Reserve Act, as amended, which provides in part that no member bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand.

"On the basis of the information supplied in your letter it seems clear that upon maturity of the certificate of deposit the deposit became a demand deposit, and payment of interest thereon for the period following maturity and prior to renewal is prohibited.

"Should you have any other questions regarding this or any similar matter, it is suggested that you communicate with the Louisville Branch of the Federal Reserve Bank of St. Louis, which will be glad to assist you."

Approved unanimously, with a copy to Mr. Johns, President, Federal Reserve Bank of St. Louis.


Secretary