

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, June 2, 1953. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Szymczak, Acting Chairman

Mr. Evans

Mr. Vardaman

Mr. Mills

Mr. Robertson

Mr. Carpenter, Secretary

Mr. Kenyon, Assistant Secretary

Mr. Leonard, Director, Division of Bank Operations

Mr. Vest, General Counsel

Mr. Sloan, Director, Division of Examinations

Reference was made to a telegram dated May 29, 1953, from Mr. Earhart, Chairman of the Committee on Miscellaneous Operations of the Conference of Reserve Bank Presidents, reading as follows:

"Following wire sent to President of each Federal Reserve Bank today:

'Following wire received today from Treasury:

"Reurtel May 27 and copies of Reserve Bank replies to your telegram regarding decentralization of currency verification and destruction. In view of status of Treasury Appropriation Bill 1954, which it is not feasible to amend, Treasury urgently hopes that arrangements can be made for Reserve Banks and branches to assume responsibility July 1. Treasury will give fullest cooperation to this end. Could arrangements be made with Reserve Banks to pay for shredders and obtain reimbursement on amortization basis? Feel certain regulations can be developed satisfactory to Reserve Banks. Draft of regulations will be mailed direct to Banks for their review and comments on or about June 8. Treasury agrees with suggestion made by some Reserve Banks for separate

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"organizational unit to verify and destroy currency subject to periodic audit by Bank auditor. It is contemplated that regulations would not materially change general specifications discussed with your Subcommittee and outlined in my telegram to you. Treasury agrees to reimbursement and hopes that such expenses may be based on uniform flat charge per 1,000 pieces verified. Telegrams indicate all parent Banks and 18 branches may be in position to start verification of unfit currency on July 1. Facilities to destroy vary in individual cases. In order to expedite this matter we desire to communicate direct with Banks concerning arrangements for destruction. Such arrangements would, in different cases, involve temporary storage, burning in present furnaces in whole-note form, shredding and burning, etc. Branch banks would be authorized to cancel, cut and ship unfit currency to parent Banks in those cases where either verification or verification and destruction could not be accomplished on July 1. We would hope to work out arrangements later whereby all branches could perform this operation. We will be glad to work closely with Mr. Laning's Subcommittee and will keep him advised if you desire of our direct contacts with Reserve Banks."

'Reference to my wire May 27 should be my wire May 26, a copy of which I sent you. It appears to me that we should accommodate Treasury by taking over decentralization in so far as possible July 1 and that Treasury has given every evidence of agreeing to the various suggestions made by Reserve Banks in connection with procedure except as to date of takeover. Consequently, I propose wiring Treasury as follows:

"Reurtel May 28 Federal Reserve Banks are willing to take over verification and destruction of United States paper currency substantially on basis outlined in your wires May 20, 21, and 28. It will be agreeable for Reserve Banks to pay for shredders and obtain reimbursement on either amortization or rental basis. It is also agreeable that expenses be based on a uniform flat charge per thousand pieces verified, it being the understanding that this charge will be based on an estimate subject to adjustment after some experience such as six months. It is quite in order and will be helpful for you to communicate with Banks directly regarding arrangements for destruction. It was our thought that Mr. Laning's Subcommittee, by working closely with Treasury, could perhaps assist in the preparation of the regulations

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"and specifications and in arranging for equipment needed by various Reserve offices. To this end it might be helpful to keep the Subcommittee informed of arrangements being consummated with Reserve Banks."

'In view of urgency would appreciate your wiring whether you approve proposed reply to Treasury.'

"Does Board have any objections?"

The matter was discussed in the light of discussions by the Presidents' Conference; exploratory studies made by the Presidents' Conference Subcommittee on Cash, Leased Wire, and Sundry Operations; telegrams from Mr. Bartelt, Fiscal Assistant Secretary of the Treasury, to Mr. Earhart dated May 20 and 21, 1953; subsequent exchanges of telegrams between Mr. Earhart, the Presidents of the other Federal Reserve Banks, and the Board; discussion at the recent Conference of Reserve Bank Auditors; and an informal discussion of the matter by the Board last week. It was also stated that the Subcommittee on Cash, Leased Wire, and Sundry Operations was to meet in Washington for three days beginning tomorrow to consider details of the proposed operation, and there was read a memorandum dated June 1, 1953, from Mr. Hexter, Assistant General Counsel, expressing the opinion that the verification and destruction of United States currency could legally be performed by the Federal Reserve Banks as fiscal agents at the request of the Treasury.

Governor Vardaman stated for the record that he was opposed in principle to the Federal Reserve Banks undertaking the function of verifying and destroying United States currency, although he would be agreeable to their

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providing facilities for carrying out such function if the Treasury so desired, provided that the actual verification and destruction was conducted under the direct supervision of representatives of the Treasury as a function separate from the activities of the Federal Reserve Banks. Governor Vardaman also stated that he wished the record to show that he was somewhat surprised to learn that the study of the decentralization of currency verification and destruction to the Federal Reserve Banks had apparently been initiated by the Reserve Bank Presidents.

In the course of the discussion, during which Mr. Myrick, Assistant Director, Division of Bank Operations, was called into the meeting, question was raised as to whether some feasible arrangement could be worked out whereby the verification and destruction of the currency at the Reserve Banks would be under the direct supervision of representatives of the Treasury, and it was suggested that this phase of the matter be made the subject of discussion at the meeting of the Subcommittee on Cash, Leased Wire, and Sundry Operations and at the joint meeting of the Presidents and the Board scheduled for June 11, 1953. Reference also was made to discussions in the past as to whether the broad supervisory powers of the Board over the operations of the Reserve Banks gave the Board authority to supervise the activities of the Banks as fiscal agents of the Treasury, and it was brought out that this question had not been finally resolved.

At the conclusion of the discussion unanimous approval was given to a telegram to Mr. Earhart in the following form:



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"Reurtel May 29 quoting May 28 wire received from Treasury regarding currency verification and destruction at Federal Reserve Banks and your proposed reply, both of which you have telegraphed to all Federal Reserve Banks.

"Board notes that draft of proposed regulations will be mailed by Treasury direct to Reserve Banks for their review and comments. Before passing on matter, Board would like an opportunity to review proposed procedures. Therefore, it is suggested that first sentence of your proposed wire to Treasury be changed to read as follows:

Reurtel May 28, Federal Reserve Banks are willing to take over verification and destruction of United States paper currency, substantially on basis outlined in your wires May 20, 21 and 28, subject to consideration by Board of Governors after opportunity to review proposed procedures and on assumption that regulations can be developed that will be satisfactory to Reserve Banks.

"Board would like to discuss entire matter with Presidents at forthcoming Conference."

Prior to this meeting there had been circulated among the members of the Board drafts of two letters to Mr. Russell G. Smith, Executive Vice President, Bank of America, New York, New York, reading as follows:

"This is to inform you that the Board grants its consent to Bank of America's request of March 20, 1953 for permission to purchase Deutsche Mark 400,000 par value shares of the capital stock of Ibero-Amerika Bank Aktiengesellschaft, a German foreign trade bank with its principal place of business in Bremen, Germany, for an aggregate price of 440,000 Deutsche Mark (equivalent to \$62,128). This consent is granted on the basis of the information supplied in your letter of application as well as that contained in your letter of May 11, 1953 to the Federal Reserve Bank of New York.

"You will recall that the Board, in its letter of April 17, 1953, to Mr. A. J. Gock, stated that 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. In this connection, it should be understood that the granting of consent by the Board to the purchase of this stock is not to be regarded as approval by the Board of any activities in which Bank of America is engaged or may be engaged.

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"Upon purchase of the shares of the capital stock of the Ibero-Amerika Bank, Bank of America will become a minority stockholder and conceivably might encounter some difficulty in preventing Ibero-Amerika from engaging in activities not permissible for corporations in whose stock a section 25(a) corporation may invest. While it would be possible for the Board, in order to meet this situation, to require that a section 25(a) corporation have or acquire control of any company in which it invests, the Board would prefer not to make such a requirement. However, Bank of America will be expected to dispose of the stock of Ibero-Amerika as promptly as practicable in the event that operations of Ibero-Amerika should at any time be inconsistent with section 25(a) of the Federal Reserve Act or regulations thereunder."

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"This is to inform you that the Board grants its consent to Bank of America's request of March 18, 1953 for permission to purchase at a cost of approximately \$100,000 a total of 850 shares of capital stock of a Financiera to be organized in and under the laws of the Republic of Mexico. This consent is granted on the basis of the information supplied in your letter of application as well as that contained in your letter of May 6, 1953 to the Federal Reserve Bank of New York.

"You will recall that the Board, in its letter of April 17, 1953 to Mr. A. J. Gock, stated that 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. In this connection, it should be understood that the granting of consent by the Board to the purchase of this stock is not to be regarded as approval by the Board of any activities in which Bank of America is engaged or may be engaged.

"Upon purchase of the shares of the capital stock of the Financiera, Bank of America will become a minority stockholder and conceivably might encounter some difficulty in preventing the Financiera from engaging in activities not permissible for corporations in whose stock a section 25(a) corporation may invest. While it would be possible for the Board, in order to meet this situation, to require that a section 25(a) corporation have or acquire control of any company in which it invests, the Board would prefer not to make such a requirement.

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"However, Bank of America will be expected to dispose of the stock of Financiera as promptly as practicable in the event that operations of the Financiera should at any time be inconsistent with section 25(a) of the Federal Reserve Act or regulations thereunder."

Governor Evans had requested that the proposed letters be considered at a meeting of the Board, and he now stated that his concern arose out of a discussion with Mr. Solomon, Assistant General Counsel, in which Mr. Solomon referred to the fact that the scope of certain activities of Bank of America in the United States was currently under consideration by the Board's staff. Governor Evans said that this caused him to question whether the stock purchases for which Bank of America had requested the Board's consent should be approved until such time as the questions with respect to other activities of Bank of America had been resolved.

In a discussion of the question raised by Governor Evans, it was stated that a decision had not yet been reached as to what position the Board should take with respect to the activities of Bank of America in the United States, that the purchase by Bank of America of stock to the extent proposed in the German and Mexican corporations with suitable safeguards appeared to be in accord with the purposes of the Edge Act, that the present requests did not have a bearing on the inquiry being made with regard to activities of Bank of America in the United States, and that the Federal Reserve Bank of New York had indicated that it knew of no reason why the requests should not be granted.

Thereupon the two letters to  
Mr. Smith were approved unanimously,

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for transmittal through the Federal Reserve Bank of New York, with the understanding that copies would be sent to the Federal Reserve Bank of San Francisco.

Mr. Sloan then withdrew from the meeting.

Reference was made to a letter dated May 26, 1953, from Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"I am quoting below an excerpt from the minutes of a meeting of the Executive Committee of this Bank held April 9, 1953, with regard to extension of the territory served by the Detroit Branch:

President Young reminded the Committee that it had been contemplated for several years that upon the completion of the new Detroit Branch building consideration would be given to the extension of the territory served by the Detroit Branch to cover the entire lower peninsula of Michigan. He believed that the time had now arrived to initiate discussions of this matter with banks in Michigan and with the Board of Governors.

UPON MOTION duly made, seconded and carried, the President was authorized to communicate with the Board of Governors and express the favorable attitude of the directors with respect to the proposed enlargement of the Detroit Branch's territory.

"We believe it advisable to contact each banking institution in Michigan now being served by the Head Office in this respect, and hope the Board of Governors will grant us permission to get started on the survey as soon as possible. The results of this survey will be referred to our Board of Directors and then forwarded to the Board of Governors for consideration."

During a discussion of the matter referred to in President Young's letter, reference was made to the request by Chairman Martin at the joint meeting of the Board and the Presidents of the Federal Reserve Banks on March 5, 1953, that the Presidents quietly undertake studies of their



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respective district and branch territories with a view to determining whether changes in transportation facilities and other conditions since the existing boundaries were established would call for changes in such boundaries to enable the Federal Reserve Banks and their branches to serve their member banks more effectively. It was suggested that the matter be brought up again at the next meeting of the Board with the Presidents to ascertain what progress had been made on the requested studies.

At the conclusion of the discussion, unanimous approval was given to a letter to President Young reading as follows:

"Thank you for your letter of May 26, 1953, informing the Board of the action of your Executive Committee and the favorable attitude of the directors with respect to the proposed enlargement of the Detroit Branch's territory.

"It is noted that, before making a recommendation as to change in territories, you propose to approach each banking institution in Michigan now being served by the Head Office regarding the proposal. The Board concurs in your belief that such a survey is desirable and will be interested in learning of the results and of the recommendation of your directors in the light of the survey."

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 1, 1953, were approved unanimously.

Letter to The National Bank of Tuxedo, Tuxedo, New York, reading as follows:

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"The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as registrar and trustee in connection with any municipal bond issue of the Town of Tuxedo and the Incorporated Village of Tuxedo Park, New York, the exercise of such authority to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

Approved unanimously, for  
transmittal through the Federal  
Reserve Bank of New York, together  
with a letter to Mr. Wiltse, Vice  
President of the Reserve Bank, con-  
taining the following paragraph:

"It has been the policy of the Board not to grant fiduciary powers to national banks except in terms of section 11(k) of the Federal Reserve Act and for this reason authority to act as fiscal agent, requested by the applicant, is not included in the grant of fiduciary powers in this instance. Furthermore, it is understood that the functions and responsibilities involved in fiscal agency appointments are not inconsistent with charter powers pertaining to the usual banking functions; that a special grant of fiduciary authority should not be necessary, therefore, to support the acceptance and administration of appointments of such kinds. Will you please advise The National Bank of Tuxedo accordingly."

Letter to the Presidents of all Federal Reserve Banks reading as follows:

"For some time the Board has been conducting, through its staff a study of the problems relating to bank capital. The study has culminated in a memorandum which we are submitting

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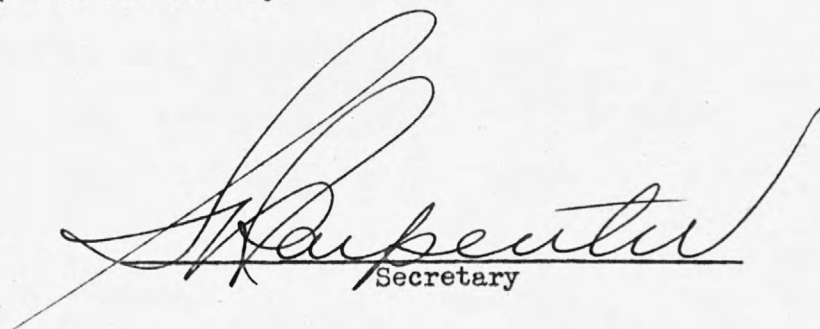
"herewith (along with copies of a 'Form for Analyzing Bank Capital', referred to in the study) in the hope that you will have the material studied by members of your staff.

"We wish to make it definitely clear that this study is designed exclusively for internal purposes. We do not intend for it to be made available to anyone outside of the System or to be referred to in discussing capital problems with representatives of any commercial bank. It is designed to provide our own staff with the best available information as a background for the exercise of judgment in determining the adequacy or inadequacy of capital in any particular bank. We do not think it is possible to calculate capital adequacy on the basis of a formula, such as the one developed in this study, for formulas or ratios cannot possibly weigh adequately and correctly such factors as the quality and performance of management or the economic environment in which the bank is operating. The formula will be used (when perfected) only as a part of a screening process to sort out the cases that deserve special study.

"Furthermore, we want to make clear that we do not intend or desire that any Federal Reserve Bank will rigidly apply this or any other formula which it may adopt for its own use in making judgments concerning capital adequacy.

"We will be grateful to have you and the members of your staff point out any gaps or defects which are observed in the memorandum in order that we may have the benefit of those views before completing the study. If it meets your convenience, we would appreciate receiving the comments by July 1, 1953."

Approved unanimously.



Secretary