

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, January 22, 1954. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Riefler, Assistant to the Chairman
 Mr. Thomas, Economic Adviser to the Board
 Mr. Leonard, Director, Division of Bank Operations
 Mr. Vest, General Counsel
 Mr. Young, Director, Division of Research and Statistics
 Mr. Sloan, Director, Division of Examinations
 Mr. Solomon, Assistant General Counsel
 Mr. Hackley, Assistant General Counsel
 Mr. Noyes, Assistant Director, Division of Research and Statistics

There was a brief exploratory discussion of the procedures and authority pursuant to which so-called stabilization credits were made available by the Federal Reserve System to certain foreign central banks in the 1920's. The discussion was in the light of the report of the Randall Commission (the Commission on Foreign Economic Policy), scheduled for public release tomorrow, and a confidential memorandum which Mr. Harold E. Stassen, Director of the Foreign Operations Administration, had sent to Chairman Martin, along with the heads of certain other Government agencies, under date of January 12, 1954, concerning relations between the EPU area and the dollar area. No conclusions were reached, but it was understood

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that the Legal Division would consider further the authority for the Federal Reserve Banks to extend credits to foreign central banks in connection with currency convertibility programs and that the Director of the Division of International Finance would make a report to the Board after he had an opportunity to study the report of the Randall Commission.

At the request of the Board, Mr. Riefler summarized the inter-agency meeting held at the Budget Bureau yesterday afternoon to discuss the proposed Housing Act of 1954. Messrs. Riefler, Solomon, and Noyes had attended pursuant to the understanding at the meeting of the Board yesterday.

With regard to certain provisions of the proposed Act having a specific relationship to the banking system, Mr. Riefler said that the views of the Board in opposition to these provisions were presented and that there was general agreement that they should be removed from the Act. As to the provisions having broad economic significance, on which the Board had suggested that questions be raised without committing the Board at this time, Mr. Riefler said that the questions provoked a great deal of discussion and that the representatives of the Budget Bureau expressed appreciation for the comments made by the Board's representatives.

Mr. Riefler also stated that the revised draft of a section of the proposed Act, which was received too late for discussion at the

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Board meeting yesterday, contained a provision that the Chairman of the Board of Governors, or some person designated by him, would be a member of the board of the reconstituted Federal National Mortgage Association. He said that the Budget Bureau took a strong stand against this provision and that, when asked for his views, he said that although the question had not been taken up by the Board of Governors, he felt confident that the Board would not favor the proposed arrangement. The members of the Board indicated agreement with this position.

Governor Robertson referred to a letter addressed to him under date of January 8, 1954, by Senator Robertson, of Virginia, who enclosed a copy of the bank holding company bill introduced in 1953 by Senator Capehart, of Indiana, Chairman of the Banking and Currency Committee. Certain proposed amendments to that bill (S. 1118) had been inserted, and Senator Robertson asked that the amendments be reviewed to see that they were properly drawn and offered at the right places. He also inquired whether Governor Robertson saw any objection to any provision of the bill to which no amendment had been offered. Senator Robertson stated in his letter that he had discussed the plan of procedure with Senator Capehart and Senator Bricker, Chairman of the Subcommittee on Federal Reserve Matters, and that he was satisfied that they would go along with the plan he now proposed.

After reviewing the work which had been done following the receipt of Senator Robertson's letter, Governor Robertson read a draft

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of reply which he proposed to send to Senator Robertson, as follows:

This is in reply to your letter of January 8, 1954, with which you enclosed a copy of S. 1118, the bank holding company bill introduced by Senator Capehart last year, with certain inserted proposed amendments to that bill.

In general, the proposed amendments would appear to have the effect of bringing S. 1118 more nearly into conformity with the so-called "Committee Print" which was ordered to be printed by Chairman Capehart at the hearings on June 10, 1953, and which, as you know, was intended to carry out the views with respect to this matter which were expressed by Chairman Martin and me on behalf of the Board at those hearings. There are, however, a number of respects in which the bill, if amended as proposed, would differ from the Committee Print.

In response to your specific request for comments, I am returning the bill with amendments enclosed with your letter, together with a memorandum which briefly discusses four points raised by the proposed amendments which seem to be of fundamental importance and to require serious consideration, and which also discusses eight additional points of somewhat less importance as to which further consideration might also be desirable. The comments have been placed in these two categories in order that, if you decide to deviate from the language of the Committee Print, you might wish to see that the deviations are made with respect to the eight points of lesser importance rather than the four points which are regarded to be of more fundamental importance.

In addition, for your consideration in this connection, I am enclosing a copy of the bill S. 1118, with inserted suggested amendments which might be termed "alternative amendments", which would have the effect of incorporating within the framework of S. 1118 the exact provisions of the Committee Print. Attached to this draft is a list of the principal and less important differences between the bill S. 1118 as originally introduced and that bill as it would be changed by these alternative amendments. Also attached is a list of the differences between these alternative amendments and the amendments which were proposed in the copy of the bill enclosed with your letter of January 8.

It should be noted particularly that, while the so-called "alternative amendments" refer to the Board of Governors as the

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administering agency, this is not in any way intended to suggest that the Board feels that it should be the administering agency. As indicated in Chairman Martin's testimony before the Senate Banking and Currency Committee last year, the Board makes no recommendation as to the agency which should be selected for this purpose; the point which has been urged by the Board is simply that administration of any legislation of this kind should be vested in a single agency.

I know that you will understand that, in submitting the enclosed material for your consideration, I am thinking only of being as helpful as possible from a technical standpoint rather than serving as an advocate of any point of view.

Governor Robertson suggested that, if approved by the Board, the reply and enclosures be handed to Senator Robertson by Chairman Martin, with a copy which Senator Robertson could hand to Senator Capehart if he wished to do so.

Following a discussion, the letter was approved unanimously, with the understanding that it would be transmitted to Senator Robertson by Chairman Martin.

Chairman Martin stated that Mr. Roland Pierotti, Vice President and Washington representative of Bank of America National Trust and Savings Association, San Francisco, California, had spoken to him informally about the right of the member bank to participate in the election of Class A and B directors of the Federal Reserve Bank of San Francisco and had inquired whether there would be any objection to Bank of America again raising this question through the San Francisco Reserve Bank, now that the

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Board's complaint against Transamerica Corporation under the Clayton Act had been dismissed. Chairman Martin said he indicated to Mr. Pierotti that the matter was one which he would have to discuss with the other members of the Board.

At the request of the Board, Mr. Vest reviewed the position taken by the Board when the question was raised by Bank of America in the past, most recently in the fall of 1953. He brought out that Transamerica Corporation no longer owns any shares of stock in Bank of America and that at present there are no common directors or officers. Therefore, the only question would be whether there was control in any manner by Transamerica of the election of a majority of the directors of Bank of America. It was Mr. Vest's opinion that the question was debatable and that it would be extremely difficult to prove that Transamerica was a holding company affiliate of Bank of America. He was disposed to think that it would be better for the Board not to make that contention any further in relation to the question under discussion, particularly since the right of Bank of America to participate in the election of Class A and B directors was not a matter of great importance.

Mr. Vest added that, in the absence of a special election, there would be no election of Class A and B directors of the Federal Reserve Bank of San Francisco until the fall of 1955. Therefore, he suggested that the Board might wish to say that in the circumstances it would prefer not to pass on the matter of Bank of America's right to participate

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but wait until an election took place. On the other hand, he felt that Bank of America was entitled to have reasonable notice of the Board's position and since the bank had raised the question from time to time and the Board's position was based primarily on the pendency of the proceeding against Transamerica, he felt there was something to be said for considering the matter at this time.

During a discussion, the members of the Board expressed the view that since the complaint against Transamerica had been dismissed, the Board should withdraw its objection to participation by Bank of America in the election of Class A and B directors, with the understanding that the question whether Bank of America was affiliated with Transamerica in such a way as to affect its voting privilege might be determined at any time, if desired, on the basis of facts existing at that time. Consideration then was given to whether the Board should indicate informally to Mr. Pierotti that it would have no objection to Bank of America raising the question through the Federal Reserve Bank of San Francisco, whether the Board should write to Bank of America through the Reserve Bank without waiting for the member bank to present the matter, or whether the Board should express its views in a letter to the San Francisco Reserve Bank, indicating that in the absence of a different recommendation by the Reserve Bank, the Bank might inform Bank of America of the Board's views.

At the conclusion of the discussion, it was agreed that a letter to the Federal Reserve Bank of San Francisco, along the lines indicated

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at this meeting, should be drafted for consideration by the Board.

Messrs. Sloan, Hackley, and Noyes then withdrew from the meeting.

There was a brief discussion of developments in the Government securities market, at the conclusion of which there were presented telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Atlanta, 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 January 18, by the Federal Reserve Bank of San Francisco on January 20, and by the Federal Reserve Banks of New York, Philadelphia, and Atlanta on January 21, 1954, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on January 21, 1954, were approved unanimously.

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

In accordance with the request contained in your letter of January 13, 1954, the Board of Governors approves the appointment of Mr. John P. Muench as an assistant examiner for the Federal Reserve Bank of Chicago. Please advise the date

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on which the appointment is made effective.

It is understood that Mr. Muench will liquidate his indebtedness to the member bank prior to the appointment.

Approved unanimously.

Letter to the Board of Directors, Federation Bank and Trust Company, New York, New York, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York the Board of Governors approves the establishment and operation of a branch by the Federation Bank and Trust Company at 4184 Main Street, Flushing, New York, provided the branch is established within six months from the date of this letter.

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

Letter to Mr. Erickson, President, Federal Reserve Bank of Boston, prepared pursuant to the understanding at the meeting on January 18, 1954, and reading as follows:

The Board has given further consideration to the question whether certain funds set aside by member trust companies in Massachusetts as a guaranty fund in their savings departments pursuant to Massachusetts law are to be treated as a part of the surplus of such institutions for the purpose of subscriptions to Federal Reserve Bank stock under the provisions of the Federal Reserve Act. This matter was discussed with the Board in some detail by you and Mr. Schlaikjer and Mr. Latham of your Bank on January 5, 1954.

Recognizing that the guaranty fund in question may well be treated as a part of surplus for certain accounting purposes, the Board feels that the legal question as to whether it should be included in surplus for purposes of provisions of the Federal Reserve Act is open to question. However, in view of the fact that your Bank, after first obtaining the opinion of the State Bank Commissioner on the subject, has advised member trust companies that

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they may count the guaranty fund as surplus for purposes of subscription to Federal Reserve Bank stock and in view of the fact that the stock has been issued on this basis, the Board will resolve the doubts in favor of the position you have taken and will not offer objection to the treatment of such guaranty funds as surplus for purposes of Federal Reserve Bank stock issuance. Other or similar funds concerning which there may be any question in the future should not be regarded as surplus in the absence of specific consideration by the Board of Governors.

With respect to this as well as other matters, the Board is always ready to pass upon any questions that might appropriately be submitted for its consideration, particularly questions involving interpretations of the law or the Board's regulations.

Approved, Governor Vardaman
voting "no".

Letter to Mr. Earhart, President, Federal Reserve Bank of San Francisco, reading as follows:

There is enclosed a copy of a letter of January 5, 1954 which the Board received from Mr. E. C. Underhill, Cashier, The Idaho First National Bank, Boise, Idaho. You will note that Mr. Underhill's question is whether the payment by a member bank of postage on incoming deposits made by mail should be regarded as an indirect payment of interest in violation of the Board's Regulation Q.

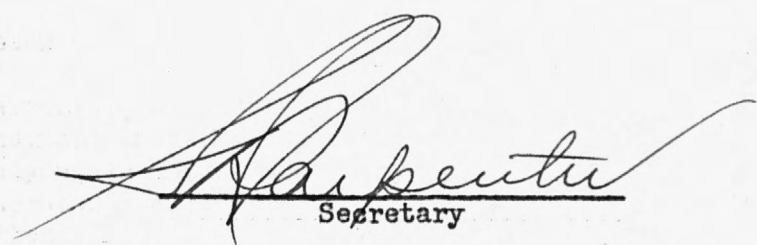
As you know, it is the Board's general policy not to express any opinion as to whether a particular practice involves a payment of interest in violation of Regulation Q except after consideration of all the facts and circumstances of a specific case as developed in the course of examinations of the member bank involved. Notwithstanding such policy, however, the Board, in the absence of unusual facts or circumstances, would not be disposed to raise any question where a member bank absorbs the postage on mail envelopes transmitting incoming deposits if this service is performed by the bank for all depositors who wish to avail themselves of it.

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It would be appreciated if your bank would make appropriate reply to Mr. Underhill. Mr. Underhill has not been advised of this reference of the matter to you.

Approved unanimously.


Secretary