

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, February 24, 1954. 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  
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. Youngdahl, Assistant Director, Division  
of Research and Statistics  
Mr. Cherry, Legislative Counsel

At the request of the Chairman, Mr. Cherry commented on a telephone call which he had received from a member of the staff of the Joint Committee on the Economic Report who requested, for the use of Representative Patman, of Texas, a statement showing daily open market transactions of the Federal Reserve Banks during the months of April and May, 1953.

There was a discussion of factors bearing on the practicability of complying with the request during which reference was made to the section of the Rules on Organization and Information of the Federal Open Market Committee which provides that unpublished information of the Committee shall not be disclosed without the consent of the Committee or its executive committee.

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It was then suggested that the requested information be furnished subject to the understanding that Chairman Martin would check with the Federal Reserve Bank representatives on the executive committee of the Federal Open Market Committee before the information was transmitted and that a copy of the statement furnished in response to the request would be sent to Chairman Wolcott of the House Banking and Currency Committee.

This suggestion was approved unanimously.

At this point Mr. Fauver, Special Assistant to the Board, entered the room and there was a discussion of plans being made for the meeting tomorrow with new directors of the Federal Reserve Banks and branches. Certain minor changes in the arrangements were proposed and it was understood that the program would be modified accordingly.

Messrs. Thurston, Cherry, and Fauver then withdrew from the meeting and Messrs. Sloan, Director, Division of Examinations, Solomon, Assistant General Counsel, and Goodman, Assistant Director, Division of Examinations, entered the room.

Before this meeting there had been sent to the members of the Board copies of a memorandum reading as follows:

Proposed Study of Activities of Foreign Banking Corporations and Foreign Branches of Member Banks

This memorandum has been prepared as a brief statement of the objectives of the investigation which was authorized by the Board on February 4 and which is to be under the direction of Governor Szymczak.

Proposed Study. - In connection with the examinations of, and other supervisory relations with, one of the Edge

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Banks (i.e., corporations chartered by the Board of Governors for the purpose of engaging in international or foreign banking) numerous questions have arisen as to what activities are appropriate and what are inappropriate for an Edge Bank to conduct, particularly in the United States, in view of the restrictive provisions in section 25(a) of the Federal Reserve Act and Regulation K. This has suggested the exploration of possible and probable effects of a certain proposed outline of appropriate and inappropriate activities of Edge Banks and, also the desirability of an even broader study to include consideration of the activities conducted by other types of institutions engaged in international or foreign banking.

The Board has important and primary responsibilities related to the supervision of foreign branches of national and State member banks, and State chartered foreign banking corporations operating under agreement with the Board--which latter institutions are engaged in the same general field of foreign financing as Edge Banks. It is contemplated, therefore, that the proposed study should consider the possible and probable effects of the proposed outline in a frame of reference broader than Edge Banks alone and should include consideration of what, if any, changes should be made in the restrictions applicable to agreement corporations. Moreover, the discriminatory effect of the statutes and regulations affecting foreign branch powers of national banks as compared with foreign branch powers of State member banks warrants consideration.

Objectives of Study. - The study would include an appraisal of what is now being done by American financial institutions in the financing of foreign trade and commerce, the operations that can be carried on under existing law, and the types of organizations that might best be provided for and the operations that they should be authorized to perform in order to provide adequate financing facilities for international and foreign trade. Since the immediate purpose of the study was to place the Board in a position to determine what activities are appropriate for Edge Act corporations to engage in under existing law, an objective of the study would be to develop what changes should be made in the Board's existing regulations, agreements, and policies with respect to such corporations, agreement corporations, and foreign branches of American banks. A broader objective would be to arrive at recommendations

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with regard to (a) modifications of the Edge Act to make it a more useful instrument for encouraging and facilitating the international and foreign trade of the United States or even the repeal of such act, and (b) modifications of section 25 of the Federal Reserve Act and other related provisions of law applicable to operations of foreign branches of commercial banks. Any questionnaires or discussions held by the Board in making the study would be framed with both of these objectives in mind and, if found to be practicable, conclusions would be reached as to the scope of activities of Edge Act and agreement corporations under existing law without waiting for conclusions on the broader objective.

After commenting on the memorandum, Governor Szymczak recommended that it be approved as a statement of the nature and objectives of the inquiry into the activities of foreign banking corporations and foreign branches of member banks. He also stated that consideration had been given to the selection of a person who would be qualified to direct the study at the staff level and that taking into account all factors, including personnel and professional background and familiarity with the Federal Reserve System and its personnel, it appeared that Mr. Neal, First Vice President of the Federal Reserve Bank of Boston, would be a suitable person. Governor Szymczak recommended, therefore, that he be authorized to explore with the Boston Bank the matter of Mr. Neal's availability.

Following a discussion, Governor Szymczak's recommendations were approved unanimously.

Mr. Solomon then withdrew from the meeting and Messrs. Hexter and Chase, Assistant General Counsel, entered the room.

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With further reference to the matter of The Continental Bank and Trust Company, of Salt Lake City, Utah, which was discussed at the meeting on February 18, 1954, Mr. Sloan reported receipt of a telegram dated February 23 from Mr. Millard, Vice President of the Federal Reserve Bank of San Francisco, containing the following information:

In a telegram dated February 20 addressed to Mr. Millard, Mr. Walter E. Cosgriff, President of The Continental Bank and Trust Company, acknowledged Mr. Millard's letter of February 5 inquiring whether the member bank had complied with a condition of membership which required that indebtedness of certain members of the Cosgriff family to the member bank must be removed from the bank within two years after date of admission of the bank to membership in the Federal Reserve System, that is, by February 1, 1954. Mr. Cosgriff stated that loans to Marian C. Sturdevant, in the amount of \$15,000, and to Mildred D. Cosgriff, in the amount of \$90,000 were still outstanding, that Emerson S. Sturdevant, husband of Marian C. Sturdevant and son-in-law of Mildred D. Cosgriff, became seriously ill about five weeks before the date of the telegram and was taken to a local hospital, that the doctors would not permit members of the family to see him, and that this made it difficult to adjust the indebtedness of Mrs. Sturdevant and Mrs. Cosgriff. In the circumstances, Mr. Cosgriff requested an extension of time for a period of not to exceed 90 days in which to comply with the condition of membership.

Mr. Millard's telegram of February 23 stated that the San Francisco Reserve Bank was acknowledging Mr. Cosgriff's telegram that day, informing him that the request for an extension of time had been forwarded to the Board of Governors for determination.

In commenting on the matter, Mr. Sloan stated that in accordance with the understanding at the meeting on February 18, he thereafter talked by telephone with Mr. Millard, who was arranging to start an examination of the member bank on or about March 1.

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Governor Mills recommended that the Board defer taking action on Mr. Cosgriff's request for an extension of time in view of the forthcoming examination of the member bank, it being his thought that the examiners could develop within a relatively short period after the opening of the examination pertinent information with respect to the liquidation of the family indebtedness, including the progress of the liquidation over the two-year period. It was also suggested that the examiners could obtain information as to whether the liquidation was actually effective or whether the debts were merely transferred and, if so, whether they were transferred to other banks in the Cosgriff group, especially member banks. Such information would be transmitted to the Board as soon as possible, along with a recommendation from the Federal Reserve Bank of San Francisco as to what action should be taken on Mr. Cosgriff's request.

Following a discussion of the matter, the procedure recommended by Governor Mills was approved unanimously.

Messrs. Sloan, Hexter, Chase, and Goodman then withdrew from the meeting and Mr. Leonard, Director, Division of Bank Operations, entered the room.

There were distributed copies of a staff memorandum dated February 24, 1954, discussing reasons which might be given for and against a reduction in member bank reserve requirements at the present time. The memorandum also presented an estimate of the amount of reserves which

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would be released by reducing reserve requirements in stated amounts, reviewed considerations bearing on the timing of a change of reserve requirements, and outlined possible procedures for absorbing the reserves that would be released.

There was a general exploratory discussion of developments in the economy and in the money market having a relationship to the question of a change in reserve requirements, and although no conclusions were reached, it was understood that the members of the Board would continue to study the matter.

At this point Messrs. Thurston and Cherry returned to the room, and the latter reported that he had just received a telephone call from a member of the staff of the House Banking and Currency Committee who stated that Congressman Patman had asked him to obtain information on the number of dealers with whom the System Open Market Account transacted business in 1953, the aggregate purchases and sales through each dealer broken down by classifications of securities, the names of the dealers, the volume of business transacted with each, and the amount of commissions paid.

The request was discussed but no conclusions were reached as to how it should be handled.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 23, 1954, were approved unanimously.

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Letter to Mr. Willis, Secretary, Federal Reserve Bank of New York, reading as follows:

The Board of Governors approves the reappointments of Messrs. Arthur G. Nelson, Edward J. Noble, and William H. Pouch as members of the Industrial Advisory Committee for the Second Federal Reserve District to serve for terms of one year each beginning March 1, 1954, in accordance with the action taken by the Board of Directors, as reported in your letter of February 18, 1954.

It is noted from your letter that, in view of the small volume of applications for loans under Section 13b of the Federal Reserve Act, the directors consider it inadvisable at this time to seek additional members of the Committee to fill the two existing vacancies.

Approved unanimously.

Letter to the President and Directors of the Manhattan Company, (Bank of the Manhattan 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 of a branch by the President and Directors of the Manhattan Company (Bank of the Manhattan Company) on the South Side of Archer Avenue, 398 feet west of 150th Street, Jamaica, Queens County, 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 for the signature of the Chairman to Mr. Felipe Pazos, Director of Research, Center for Latin American Monetary Studies, Mexico City, Mexico, reading as follows:

This is in reply to your letter of February 3 regarding the desire of your Center for technical help from the Board in connection with your program for next summer.

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We appreciate your generous comments about the effectiveness of the Federal Reserve staff members who participated in last year's sessions, and the Board would like to be of as much help this year as it can. There is considerable doubt, however, as to whether we will be able to increase our participation from two staff members to three, as your letter suggests.

Regarding your request to have Mr. Arthur W. Marget give four lectures on "Current International Financial Problems," in the latter part of July or in August 1954, it now appears that this will probably be quite feasible. Unless unexpected developments should interfere, the Board will be glad to arrange for this participation by Mr. Marget.

It also seems probable that the Board will be able to send another of its economists to participate in the seminar in Central Banking, as you request, during the latter part of June or the early part of July. It is possible that Mr. Dembitz may be available for this purpose. If this does not prove possible, the Board will try to arrange to send Mr. Tamagna again, although there is some preference for sending different staff members rather than providing for the regular participation of the same economist from here.

We have also noted your request for participation again by Mr. Goodman, on the subject of bank examination techniques. Unfortunately, because of certain other assignments, it is not possible at this time to plan on Mr. Goodman's participation next summer. In case you should find, as the summer approaches, that your other lectures on bank examination will not be adequate and that you have a special need of Mr. Goodman's participation, you may of course feel free to communicate with me again on this subject.

The Board members have also noted your request to have the Board receive one group of your trainees for a week's study here, early in September 1954. The Board will be glad to cooperate in this way with your Center. It will be appreciated if you will communicate with Mr. Kenneth Kenyon, Assistant Secretary of the Board, when you wish to discuss the selection of dates, the number of participants, or other matters relating to the arrangements for this visit.

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I trust that this year's course of training will duplicate, or even exceed, the degree of success which was achieved last year.

Approved unanimously.

Memorandum dated February 15, 1954, from Mr. Shay, Assistant Counsel, recommending that the Board's Employment Security Regulations, as amended February 12, 1954, be further amended as follows, effective immediately, so as to bring the Board's Regulations into conformity with the revised sample regulation of the Department of Justice:

1. By deleting the entire last sentence of subsection (c) of section 5.

2. By deleting the period at the end of subparagraph (2) of subsection (f) of section 5 and adding at the end thereof the following:

"and, in that event, the employee shall be compensated for the period of suspension."

Approved unanimously, with the understanding that copies of the amended Regulations would be sent to the Attorney General, as requested in a letter dated February 10, 1954, from Deputy Attorney General William P. Rogers.

Memorandum dated February 20, 1954, from Mr. Marget, Director, Division of International Finance, recommending that Samuel I. Katz, Economist in that Division, be permitted to teach a course in money and banking at American University during the 1954 summer session. The memorandum stated that the class would meet on Mondays and Wednesdays from 6:00 to 9:00 p.m., beginning approximately June 21 and ending

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July 30, 1954, and that an honorarium of \$300 would be paid to Mr. Katz.

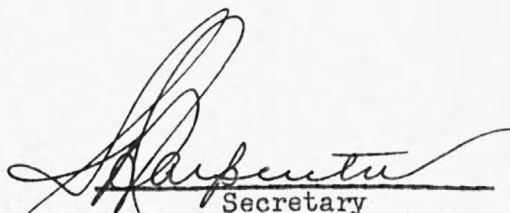
Approved unanimously.

Letter to Mr. Erickson, President, Federal Reserve Bank of Boston, reading as follows:

Thank you for your letter of February 9 stating that your Bank has made studies concerning the desirability of changes in existing First District boundaries and establishment of branches within the District.

It is noted that no demand by member banks for such changes has come to your attention; that each banking point in the District can be reached by overnight rail or bus transportation from Boston; that no large population shifts have developed in New England; that no pronounced shifts in long established trade and banking channels or relationships have taken place; and that, accordingly, your Bank has concluded it would at present serve no useful purpose and would not be desirable for District lines to be changed or for any branch to be established within the First District.

Approved unanimously.



Secretary