

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, March 2, 1954.

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

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 1, 1954, were approved unanimously.

Letter to Mr. Virden, Federal Reserve Agent, Federal Reserve Bank of Cleveland, reading as follows:

In accordance with the request contained in your letter of February 24, 1954, the Board of Governors approves the appointment of Mr. Richard P. Oettinger as a Federal Reserve Agent's Representative at the Cincinnati Branch, effective March 15, 1954, to succeed Mr. W. Howard Marsh.

This approval is given with the understanding that Mr. Oettinger will be placed upon the Federal Reserve Agent's pay roll and will be solely responsible to him or, to the Assistant Federal Reserve Agent, and to the Board of Governors, for the proper performance of his duties. When not engaged in the performance of his duties as Federal Reserve Agent's Representative he may, with the approval of the Federal Reserve Agent or, in his absence, of the Assistant Federal Reserve Agent, and the Vice President in charge of the Cincinnati Branch, perform such work for the Branch as will not be inconsistent with his duties as Federal Reserve Agent's Representative.

Mr. Oettinger should execute the usual oath of office which should be forwarded to the Board of Governors.

Approved unanimously.

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

In accordance with the requests contained in your letters of February 23, 1954, the Board approves the appointments of William Seitz, Jr., and Jack M. Egertson as assistant examiners for the Federal Reserve Bank of Chicago.

Please advise as to the dates upon which the appointments are made effective.

Approved unanimously.

Letter to Mr. Powell, President, Federal Reserve Bank of Minneapolis, reading as follows:

The Board of Governors approves the appointment of Mr. A. B. Heian, Chippewa Canneries, Chippewa Falls, Wisconsin, as a member of the Industrial Advisory Committee for the Ninth Federal Reserve District to serve for a term of one year beginning March 1, 1954, in accordance with the action taken by the Board of Directors as indicated in your letter of February 25, 1954.

Approved unanimously.

Letter to Mr. A. J. Gock, Chairman of the Board of Directors, Bank of America, 40 Wall Street, New York, New York, reading as follows:

An examination of Bank of America was made as of December 4, 1953 and a report is now in preparation. The examiner has informed the Board that Bank of America purchased the lease, furniture, and equipment of the foreign exchange trading office in Paris, France, of Hayden Stone & Co. on June 30, 1953 and that the manager, two foreign exchange traders, and a secretary of the Paris staff of Hayden Stone & Co. accepted employment with Bank of America on May 1, 1953 for the purpose of carrying on the same type of foreign exchange trading operations in Paris for Bank of America.

It is understood that the Paris foreign exchange trading office conducts extensive telecommunication activities in connection with the purchase and sale of currencies. It is also understood that transactions in which

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the Paris office participates are entered into in the name and for the account of Bank of America, New York, and that certain records of the transactions are maintained at your New York office. However, on the basis of the information available, the operations of the Paris foreign exchange trading office appear to be of a scope and character which under section 25(a) of the Federal Reserve Act may not be carried on at Paris except at a branch or agency established there with the approval of the Board.

Accordingly, if the corporation wishes to continue these operations it is suggested that it promptly forward to the Board in the usual manner through the Federal Reserve Bank of New York a request for such approval. Such a request should give a full description of any present or proposed operations and should contain sufficient information to permit a judgment on all relevant factors, including such questions as whether the operations would be consistent with the policies of the country where the operations are conducted. The Board, of course, is not in a position at this time to express any opinion as to whether or not such a request would be granted.

Reference is also made to the Board's letter of April 17, 1953, transmitting copies of the report of examination of Bank of America made as of October 31, 1952 by examiners for the Board of Governors. In the last paragraph of that letter, the statement was made that the entire problem of the proper scope of activities of corporations organized under section 25(a) of the Federal Reserve Act was being reviewed with particular reference to activities in the United States. This matter will be studied in the light of the information developed during the recent examination of your bank when the report is available, and it is contemplated, of course, that before the Board reaches any decision, which may affect the scope of the operations of your institution, you will have an opportunity to discuss the matter with representatives of the Board.

Approved unanimously, together
with a letter to Mr. Sproul, President,
Federal Reserve Bank of New
York, reading as follows:

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There is enclosed a letter to Mr. A. J. Gock, Chairman of the Board of Directors, Bank of America, 40 Wall Street, New York, regarding the Paris foreign exchange operations of that corporation. It will be appreciated if you will forward the letter to Mr. Gock. An extra copy is also enclosed for your files.

If Bank of America should submit a request for approval of a branch or agency to conduct the operations, it will be appreciated if you will forward the request to the Board together with your recommendation. In connection with your recommendation it will be appreciated if you will take into account the factors mentioned in the letter to Mr. Gock and any others you may consider relevant.

Letter to Mr. Hill, Vice President, Federal Reserve Bank of Philadelphia, reading as follows:

This is in further reference to your letter of January 29, 1954, which raised the question whether, under section 32 of the Banking Act of 1933, as amended, Mr. B. Everett Zelle, who recently became employed as a registered representative of F. P. Ristine & Company, Philadelphia, Pennsylvania, may continue to serve at the same time as director of The Laurel Springs National Bank, Laurel Springs, New Jersey. There has also been received in this connection your supplemental letter of February 19, 1954, and its enclosures.

From the above correspondence it appears that the activities of F. P. Ristine & Company of the kinds covered under section 32 are participations in selling groups, including selling group arrangements for the distribution of the redeemable shares of several mutual funds; that the annual dollar volume of these activities for the years 1949 through 1952 ranged from \$1,968,000 to \$2,217,000, and for the first nine months of 1953 amounted to \$1,934,000; and that the percentage ratio of such dollar volume to the Company's total business for the years 1949 through 1952 ranged from 2.2 per cent to 4.09 per cent, and was 4.2 per cent for the first nine months of 1953.

It appears further, however, that the Company's annual gross income from the aforementioned activities for the years 1949 through 1952 ranged from \$81,014 to \$110,824, while the percentage ratio of such income to yearly total gross income over such period ranged from about 12 per cent to 17 per cent. Gross income from such activities for the

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first nine months of 1953 was \$81,969, or approximately 17 per cent of gross income for such period.

The information presented shows also that, although the Company does not emphasize in its advertising or reports the activities described above as covered under section 32, it does have a separate department for the handling of the shares of the several mutual funds. Of the total activities of the Company covered under section 32, 80 per cent is estimated to be the distribution of mutual fund shares. This was characterized by the Company in its letter of February 12, 1954, as "a substantial business".

Your letter indicated that it is the view of your Bank, with the concurrence of Bank Counsel, that F. P. Ristine & Company is "primarily engaged" in business subject to section 32 and that, therefore, Mr. Zelle may not lawfully continue to serve both that Company and The Laurel Springs National Bank.

On the basis of the information as presented, the Board agrees with the view stated in your letter. Accordingly, the parties concerned should take the necessary steps to bring the matter into conformity with the statute.

Approved unanimously.

Letter to The First Commercial Bank, Chicago, Illinois, reading as follows:

On September 16, 1953, the Bank of Rogers Park (now known as The First Commercial Bank), Chicago, Illinois, was advised by the Federal Reserve Bank of Chicago that, in the opinion of the Board of Governors of the Federal Reserve System, the aggregate amount of the capital funds of the bank was inadequate and should be increased through the sale of additional common stock for cash to provide not less than \$400,000 net additional capital funds. The bank was requested to advise the Federal Reserve Bank within 60 days of the steps that would be taken to comply with this request. Later the period for development of a plan for increasing capital was extended, and the extended period also elapsed without the submission of a satisfactory plan. In the circumstances, the Board of Governors does not feel justified in further extending the period for preliminary consideration of the matter.

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The last paragraph of section 7 of the Federal Reserve Regulation H, a copy of which is enclosed, provides that:

"If at any time, in the light of all the circumstances, the aggregate amount of a member State bank's net capital and surplus funds appears to be inadequate, the bank, within such period as shall be deemed by the Board to be reasonable for this purpose, shall increase the amount thereof to an amount which in the judgment of the Board shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities."

Pursuant to this provision of Regulation H, you are hereby informed that, in the judgment of the Board of Governors, the aggregate amount of the bank's net capital and surplus funds is inadequate, and the amount thereof must, within six months from the date of this letter, be increased not less than \$400,000 through the sale of additional common stock for cash. In the judgment of the Board of Governors, this increase is necessary in order for the aggregate amount of the bank's net capital and surplus to be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities.

In order to obviate any possible misunderstanding as to the purport of this letter, your attention is directed to the fact that the time for merely preliminary consideration of a plan has expired, and the six months provided for in this letter is the period of time within which the required capital increase shall be actually accomplished. Needless to say, the Federal Reserve Bank of Chicago and the Board of Governors are available for consultation regarding questions that may arise in the course of your capital increase program.

In connection with the requirements set forth in this letter, your attention is directed to section 9 of the Federal Reserve Act, which provides that if a member bank fails to comply with the regulations of the Board of Governors, "it shall be within the power of the board after hearing to require such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership."

Approved unanimously, together
with a letter to Mr. Diercks, Vice
President of the Federal Reserve
Bank of Chicago, reading as follows:

On December 22, 1953, you were requested to advise The First Commercial Bank (formerly called Bank of Rogers Park),

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Chicago, Illinois, that the issuance of capital debentures would not be an acceptable substitute for the sale of additional common stock to supply new capital in the amount of \$400,000 net cash. You were requested also to start a new examination of the member bank as soon after January 1 as was practicable.

Your letter of February 1, 1954, enclosed a copy of a letter from Mr. Harold H. Stout, President of The First Commercial Bank, which requested a further extension of 60 days since plans have not been formulated to provide for the capital increase. Your letter also stated that an examination of the bank was started during January, 1954.

On your recent visit to this office on February 12, the facts in respect to The First Commercial Bank were again reviewed, and you stated that you had not altered your viewpoint that the member bank should be required to provide increased capital through the sale of new common stock for \$400,000 net cash, and would concur in the issuance of a notice to the member bank that it must provide the requisite new capital within a specified limited period.

We have considered the request made by Mr. Stout in his letter of January 29 to you but do not feel justified in granting a further extension of time for the development of a plan for increasing capital. Accordingly, there is enclosed a letter which you are requested to transmit immediately by registered mail to The First Commercial Bank, Chicago, Illinois, in which it is stated that the amount of the member bank's net capital and surplus funds must be increased within six months from the date of the letter not less than \$400,000 net cash through the sale of new common stock. A copy of the letter is enclosed for your file. In your letter of transmittal it is suggested that you indicate to the member bank that correspondence in respect to our letter should be with the Federal Reserve Bank of Chicago. Please let us know if you wish any other information in respect to this letter.

We have never received copies of your letters to The First Commercial Bank dated September 16 and December 23, 1953, and we would appreciate receiving copies for our files.

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

Referring to your letter of February 24, 1954, the Board further extends until April 15, 1954 the time within which Harris Trust and Savings Bank, Chicago, Illinois,

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shall file the report of Larcon Company, its affiliate, as of December 31, 1953. The Board is pleased to note that progress is being made in settling this case and hopes that further extensions of time will be unnecessary.

Please continue to keep the Board advised of any material change in the status of the affiliation which may occur prior to the expiration of this extension period.

Approved unanimously.



Secretary