

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

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

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. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Allen, Director, Division of Personnel Administration
Mr. Marget, Director, Division of International Finance
Mr. Youngdahl, Assistant Director, Division of Research and Statistics
Mr. Dembitz, Assistant Director, Division of International Finance
Mr. Katz, Economist, Division of International Finance

Reference was made to a letter dated March 17, 1954, from Mr. Sproul, President of the Federal Reserve Bank of New York, to Chairman Martin, with which Mr. Sproul enclosed copies of confidential cables that he had received from Governor Cobbold of the Bank of England. One cable, which concerned steps being taken by the British Government to widen the automatic transferability and usability of sterling held by nonresidents, was accompanied by the text of a press statement on this matter scheduled for release in London on the morning of Saturday, March 20. The other cable concerned the decision of the British Government to

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reopen the London gold market on a restricted basis, effective March 22. The cable stated that an announcement on this subject would appear in the press in London on March 20.

At the request of the Board, Messrs. Marget and Katz discussed these two moves on the part of the British. They stated that the announcement of the reopening of the London gold market carried into effect the proposal described by British Government officials recently to representatives of the United States Government, as discussed at the meeting of the Board on February 15, 1954. The other step announced by the British was regarded by Messrs. Marget and Katz as being a step of considerable significance in the direction of full sterling convertibility, and they described in some detail the background of the move and the transactions which would be permitted under the new system.

Following a discussion of the British announcements, all of the members of the staff with the exception of Messrs. Carpenter, Young, and Allen withdrew from the meeting.

At the request of Chairman Martin, Mr. Young stated that Mr. Stephen Benedict, Special Assistant in the office of Mr. Hauge, Administrative Assistant to the President, called on Friday afternoon to say that a search was being made for an executive assistant to Mr. Clarence Francis, Chairman of the General Foods Corporation and a Class B director of the Federal Reserve Bank of New York, in connection with the special

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assignment which the latter had accepted of developing a policy program for dealing with agricultural surpluses and other excessive stockpiles that the Government might have. The services of the individual sought would be needed for a period up to 60 days, and Mr. Benedict inquired whether it would be possible to borrow Mr. Noyes, Assistant Director of the Division of Research and Statistics, for that purpose. Mr. Young added that Mr. Noyes was agreeable to whatever decision the Board might make in the matter and, while Mr. Young felt that the absence of Mr. Noyes for the desired period would handicap the Division somewhat, he stated that Mr. Noyes could be spared if that should be the decision of the Board.

After a discussion of the matter, Mr. Young was requested to advise Mr. Benedict that, while Mr. Noyes' absence would be somewhat of a handicap and for that reason the Board would grant him a leave of absence with considerable reluctance, the Board would be willing to grant a request that his services be made available for a period of not to exceed 60 days.

There was a preliminary discussion of individuals who might be considered for appointment as a Class C director at the Federal Reserve Bank of Chicago and as a director at the Detroit Branch of the Chicago Bank for the unexpired portions of the terms expiring on December 31, 1956, and it was agreed that further consideration would be given to the matter on Wednesday, March 24, when all of the members of the Board were present.

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Mr. Carpenter stated that advice had been received from the Federal Reserve Bank of New York that the transfer of Ontario, Steuben, Wayne, and Yates counties from the head office territory to the Buffalo Branch territory would be made effective on April 1, with announcement on March 22, 1954.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 19, 1954, were approved unanimously.

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 March 12, 1954, and, pursuant to the provisions of Section 19 of the Federal Reserve Act, grants permission to MacGregor Park 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 as of the date of commencement of business by the subject bank.

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 Mr. Johns, President, Federal Reserve Bank of St. Louis, reading as follows:

Thank you for your letter of March 11 transmitting a report summarizing your Bank's study of district and branch territory boundaries for the Eighth Federal Reserve District.

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It is noted this report concludes that there are no compelling reasons to change present district boundaries; and that there are no persuasive reasons to change the present county make-up of intradistrict territories or the number of Eighth District branches.

Also noted is the recommendation that your Bank explore further the desirability of shifting eleven Eighth District towns to the Federal Reserve offices serving the counties in which they are located. The Board interposes no objection to your proposal to ascertain the views of the six member banks in these towns.

Approved unanimously.

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

The Board authorizes the preparation of detailed plans and specifications for the addition of eight stories and alterations to the existing building on the basis of the preliminary plans and specifications referred to in your letter of January 22, 1954.

It is understood from recent conversations Mr. Mills and Mr. Larson, your architect, had with Mr. Persina, the Board's consulting architect, and Mr. Leonard that further consideration will be given to Mr. Persina's suggestion that the story heights of the proposed addition be reduced from 14-feet to 13-1/2-feet, without reducing the ceiling height, and that Mr. Larson thought this could be done.

In accordance with the established procedure, it is understood that when the detailed plans and specifications have been completed they will be submitted to the Board of Governors for consideration prior to requesting bids.

Approved unanimously.

Letter to Mr. L. A. Jennings, Deputy Comptroller of the Currency, Washington, D. C., reading as follows:

This refers to your letter of February 26, 1954, recommending "that Regulation F be modified or amended in a manner which will authorize national banks, where not prohibited by state law, to originate, process, and hold real

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estate loans secured by trust deeds or mortgages, each loan to be earmarked for a specific fiduciary account, and to carry such loans in a separate account or under a special control as an asset of the bank for a period of time not to exceed six months during which time the specific account for which the loan is earmarked is accumulating sufficient funds to acquire the loan as a fiduciary investment". As a further protection you have recommended that the real estate loans so earmarked "must be bona fide new loans, the proceeds of which are not being used in whole or in part, directly or indirectly, to liquidate other loans previously held by the commercial department".

As such real estate loans would first be assets of the bank's commercial department, their sale to fiduciary accounts would amount to investments of trust funds in property belonging to the trustee. The suggested amendment, therefore, would appear to authorize a form of self-dealing on the part of the fiduciary contrary to a well-established principle of trust administration. It is realized that the restrictions, limitations and safeguards you have suggested would substantially diminish the element of self-dealing. Nevertheless, it should be recognized that, in each case, the bank will be faced with a decision as to whether a particular mortgage will be retained by the bank or will be sold to the trust estate, as it is assumed that the bank and the trust will not be absolutely bound to make the transfer when the trust has accumulated sufficient funds. At such time the bank might be tempted (1) to transfer the mortgage to a trust even though surrounding circumstances had deteriorated since the loan was first made, or (2) to retain the mortgage if for any reason, such as a reduction in the general level of interest rates, the loan seemed to offer a particularly advantageous means of investment of bank funds.

There is another aspect to this proposal which raises other considerations. The laws of Pennsylvania permit a bank to invest trust funds in mortgages purchased from the commercial department of the bank within a year after the mortgages are acquired by the bank, if they are earmarked for trust investment at the time of acquisition by the commercial department. We understand that under this statute some banks so earmark all mortgages. Towards the end of the year such banks might place some of those mortgages (particularly those which the bank does not wish to retain as an investment of its own funds) in trust accounts, regardless of the appropriateness of such investments on the part of the particular trusts.

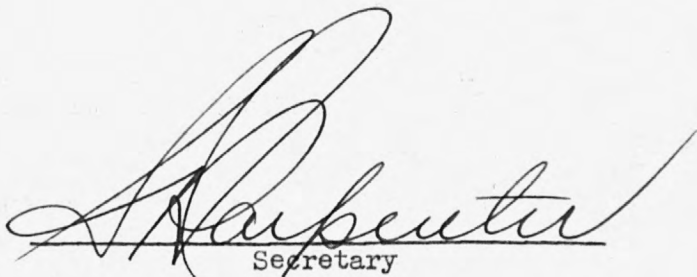
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The Board has been requested several times in the past to amend Regulation F so as to permit national banks to take advantage of this relaxation of the principle against self-dealing. Each time, the Board has carefully considered the matter and has reached the conclusion that no relaxation in the prohibition of Regulation F against self-dealing is justified unless the trust instrument specifically requires the action or it is authorized by court order.

It is believed that the amendment you propose would afford national banks little practical opportunity to take advantage of the more liberal provisions of State law and might merely lead to later requests to have the limitations removed so as to place national banks in exactly the same position as competing State banks. In that event, the present proposal's departure from sound fiduciary principles might prove to be a first step in the renewal of attempts to have the regulation so amended. Therefore, the Board has concluded that the benefits to be derived from the proposed amendment to Regulation F would not justify its adoption.

Approved unanimously.



Secretary