Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, April 7, 1954. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Szymczak, Acting Chairman
Mr. Evans
Mr. Vardaman
Mr. Robertson

Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board

Governor Evans reported, as a matter of information, that the Federal Reserve Bank of St. Louis had now completed the purchase of property located at 5th and Liberty Streets in Louisville, Kentucky, as a site for a new Louisville Branch building. Authority for the Reserve Bank to acquire this property was contained in the Board's letter which was approved at the meeting on March 5, 1954.

Governor Robertson referred to discussions which took place at the meetings on December 14, 16, and 21, 1953, concerning the request made by Congressman Patman of Texas for certain information regarding salaries of officers of commercial banks. He said that pursuant to the understanding at that time the Board's staff, in cooperation with the Federal Reserve Banks, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation, had compiled data on commercial bank salary trends which he believed to be sufficient to satisfy Congressman Patman's request, although the study probably was not comprehensive enough to warrant publication of an article based on it in the Federal Reserve Bulletin or otherwise.

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Governor Robertson said that since the original request from Congressman Patman for such information had been directed to the Federal Deposit Insurance Corporation, it would be his suggestion that the letter transmitting the data be sent over the signature of Mr. Cook, Chairman of that Corporation. He went on to say that a letter, in a form which he considered acceptable, had been drafted for Mr. Cook's signature and that it would be submitted to the members of the Board for consideration after having been approved by the Comptroller of the Currency and the Federal Deposit Insurance Corporation. The letter, he said, would make it clear that the data transmitted had been compiled through a joint effort on the part of the three Federal bank supervisory agencies.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 6, 1954, were approved unanimously.

Memorandum dated April 2, 1954, from Mr. Sloan, Director, Division of Examinations, recommending that the resignation of Evelyn C. Golibart, Stenographer in that Division, be accepted effective April 23, 1954.

Approved unanimously.

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Letter to Mr. Stetzelberger, Vice President, Federal Reserve Bank of Cleveland, reading as follows:

> In accordance with the request contained in your letter of March 31, 1954, the Board approves the appointment of Leo G. Hafford as an assistant examiner for the Federal Reserve Bank of Cleveland.
>
> Please advise as to the date upon which the appointment is made effective.
>
> It is noted that Mr. Hafford's indebtedness to the Central National Bank of Cleveland, Cleveland, Ohio, in the amount of $800, secured by a first mortgage on his home, is being amortized monthly and will be paid in full by September 1955. It is assumed, of course, that he will not be authorized to participate in any examinations of the national bank until his loan has been liquidated.

Approved unanimously.

Letter to Mr. Denmark, Vice President, Federal Reserve Bank of Atlanta, reading as follows:

> In accordance with the request contained in your letter of April 1, 1954, the Board approves the designation of Charles M. Fife, Jr., as a special assistant examiner for the Federal Reserve Bank of Atlanta, for the specific purpose of rendering assistance in the examinations of State member banks only.

Approved unanimously.

Letter to the Board of Directors, Metropolitan Bank of Miami, Miami, Florida, stating that subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Atlanta. The letter also contained the following special paragraph:

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At the time of the examination as of February 23, 1954, the investment account of the bank included shares of three local savings and loan associations. Upon becoming a member of the Federal Reserve System, the bank will not be permitted to make investments in such shares under the provisions of Section 9 of the Federal Reserve Act and, therefore, the Board requests that the shares now owned be disposed of within a reasonable time if such action has not already been taken.

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

Letter to Mr. Wiltse, Vice President, Federal Reserve Bank of New York, reading as follows:

This refers to your letter of March 19, 1954, and its enclosures, concerning the possible applicability of section 32 of the Banking Act of 1933, as amended, to interlocking relationships between member banks or trust companies and a "mutual trust investment company" which would be authorized to be incorporated by a bill pending in the New York State Legislature and sponsored by the New York State Bankers Association.

From the above correspondence it appears to be contemplated that the "mutual trust investment company" (an open-end company) would be incorporated by or on behalf of trust companies and national banks with trust powers as a medium for the common investment of fiduciary funds held by such institutions. The shares of the proposed investment company would be held by and limited to the participating fiduciary institutions in their fiduciary capacity only.

Among other things, it appears also that the formation of the proposed "mutual trust investment company" would require the approval of the New York State Banking Board which would be authorized to regulate the conduct and management of the company; that the company would be authorized to invest only in such investments as are legal investments for fiduciaries under New York State law; that the investment of fiduciary funds in the company's shares would be permissible except where prohibited

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by the terms of a particular trust or where the amount of investment per trust would exceed $100,000; and that the New York statute similar to section 32 of the Banking Act of 1933 would be amended so as to exempt interlocking relationships between State chartered institutions and the proposed investment company.

The Board has heretofore taken the position that open-end investment companies are primarily engaged in the business described in section 32 of the Banking Act of 1933 and the question, therefore, is whether there are peculiar facts in this case which might exclude it from the scope of the prohibition in section 32.

The fact that the investment company may be a nonprofit organization would not seem to eliminate the possibility of the exercise of undesirable influence with which the law is concerned. The question must be considered in the light of the fact that officers or employees of the nonprofit organization, as well as its directors, might conceivably wish to be or become directors of member banks. Even though such influence may be unlikely, the law is aimed at the possibility of such influence. It would seem that trust beneficiaries should have the protection of the law to the same extent as other customers of a member bank; indeed the need for protection for trust beneficiaries may be greater, since investment decisions are made by the bank's officers. In this respect particularly this case is believed to be different from that referred to in the Board's letter of October 9, 1952, with respect to an open-end trust established under New York law as an investment medium exclusively for mutual savings banks.

Accordingly, on the basis of the information at hand, the Board is of the view that interlocking relationships between member banks and the proposed mutual trust investment company would not be permissible under the provisions of section 32 of the Banking Act of 1933.

Approved unanimously.

Letter for the signature of the Chairman to The Honorable Homer E. Capehart, Chairman, Committee on Banking and Currency, United States

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Senate, Washington, D. C., reading as follows:

This is in response to your Committee's request, dated March 29, for the opinion of the Board of Governors as to the merits of S. 3158, a bill "To eliminate cumulative voting of shares of stock in the election of directors of national banking associations."

Cumulative voting for directors of corporations, which is provided for in the Constitutions of a number of States and by statute in other States, is based on the principle that minority representation, or proportional representation, on boards of directors is desirable. Through cumulative voting, minority shareholders may be enabled to elect one or more directors, whereas in the absence of cumulative voting the majority shareholders could elect all the directors, so that a substantial minority which might not be in agreement with the policies and point of view of the majority could be prevented from presenting its views and otherwise participating in the direction of the corporation's affairs.

The provision regarding cumulative voting by shareholders of national banks has been a part of the Federal statutes for over twenty years, and while the Board has not had direct supervision of the operation of the statute, as has the Comptroller of the Currency, it is the Board's opinion that the principle underlying cumulative voting - namely, permitting substantial minority groups of shareholders to be represented on the board of directors - is a sound one. Accordingly, the Board feels that the statute should not be amended in the manner proposed by S. 3158 unless it is established to the satisfaction of your Committee and the Congress that results in actual operation have been so unfavorable that repeal of the provision is clearly advisable.

Approved unanimously, with the understanding that before the letter was transmitted, a copy would be sent to the Bureau of the Budget, in accordance with the usual procedure, with a request that the Board be advised as to the relationship of the proposed legislation to the program of the President.

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Letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington, D. C., reading as follows:

This refers to your letter of March 29, 1954 requesting an expression of views on a draft bill (submitted by the Farm Credit Administration) "To authorize production credit associations to pay dividends on class A stock without paying dividends on class B stock, to pledge securities representing investments of their guaranty funds, and to pay dividends on class A or class C stock without regard to the provisions of Section 22 of the Farm Credit Act of 1933, and to authorize production credit corporations to invest in class C stock of production credit associations without affecting the tax status of such associations, and for other purposes."

The proposed bill would change the law chiefly in the respects indicated above in its title. It appears that the bill deals mainly with technical aspects of the operations of production credit associations, and that, in general, it would not directly affect the Board's major responsibilities. In the circumstances, the Board has not attempted to offer extensive comments on the bill or to make a thorough appraisal of its advantages or disadvantages.

Approved unanimously.

Assistant Secretary

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