Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, April 19, 1954. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Vest, General Counsel
Mr. Sloan, Director, Division of Examinations

Reference was made to a draft of letter to the Federal Reserve Bank of New York, which had been circulated to the members of the Board, concerning the applicability of section 32 of the Banking Act of 1933, as amended, to the concurrent service of Mr. Donald M. Liddell, Jr., as a director of the National State Bank of Elizabeth, Elizabeth, New Jersey, and as a director of Templeton & Liddell Fund, Inc., New York City, an open-end investment company. The proposed letter took the position that the interlocking relationship should be regarded as prohibited by section 32, whereas the position of the New York Reserve Bank, as stated in a letter dated March 26, 1954, from Mr. Wiltse, Vice President, was that Mr. Liddell's joint service was not prohibited by the statute on the basis of the circumstances involved.

In commenting upon the matter at the request of the Board, Mr. Vest stated that the question was first presented to the Board by the Office of the Comptroller of the Currency in early 1953. He recalled that the Board, in a letter to the Comptroller dated May 21, 1953, took the position that the evidence was not sufficiently clear to support a definite conclusion at that time that the interlocking relationship was unlawful. The letter, however, also stated that the situation would be reviewed at the end of 1953 and that if the facts at that time were such as to indicate that the statute should be regarded as applicable, the Comptroller would be so advised.

Mr. Vest said that the review made by the Federal Reserve Bank of New York as of the end of 1953, pursuant to the earlier understanding, disclosed significant increases in the market value of the open-end investment company's assets, in the number of its outstanding shares, in the number of its shareholders, and in the number of shares held by new shareholders. In the circumstances, he said, it was the opinion of the Board's Legal Division that there definitely had been a material change in the situation and that the facts were now such as to require reaching the conclusion that the interlocking relationship in question should be regarded as prohibited by section 32.

In response to a question, Mr. Vest said that he had discussed the matter by telephone with a member of the New York Bank's legal staff who indicated that he could not argue strongly against the conclusion

that a material change in the situation had developed since the question was first raised by the Comptroller's Office.

Thereupon, unanimous approval was given to a letter to Mr. Wiltse, Vice President of the Federal Reserve Bank of New York, reading as follows:

This refers to your letter of March 26, 1954, and its enclosures, concerning the review by your Bank of the applicability of section 32 of the Banking Act of 1933, as amended, to the concurrent service of Mr. Donald M. Liddell, Jr., as a director of the National State Bank of Elizabeth, Elizabeth, New Jersey, and as a director of Templeton & Liddell Fund, Inc., New York City, an open-end investment company.

As you indicated, the question of the applicability of section 32 in this connection was raised by the Office of the Comptroller of the Currency about one year ago. Following its study of the matter, including the information submitted by your Bank, the Board concluded under date of May 21, 1953, that, while the question was a close one, the Board did not feel that the evidence was sufficiently clear to support a definite conclusion at that time that the interlocking relationship involving Mr. Liddell was prohibited. However, in asking in its letter of May 21, 1953, that your Bank look into the matter again at the end of 1953, the Board stated that if there should develop any material change in the situation which involved an increase in volume of sales of the Fund's shares, an increase in number of shareholders of the Fund, a broadening of the classification of the Fund's shareholders, efforts to make sales of the Fund's shares, or the making of charges by the Fund, it seemed probable that the facts would then be such as to require the conclusion that the interlocking relationship was prohibited.

In your letter of March 26, 1954, you state that there has been no broadening of the classification of the Fund's shareholders, that there has been no effort made to sell shares of the Fund publicly, and that there has been no fee or charge made by the Fund. However, from such letter and its enclosures it appears that during the past year the market value of the Fund's assets has increased from $403,589 to approximately $600,000; that the number of outstanding shares of the Fund has increased from 2,819 to 4,345, or 54 per cent; that the number of the Fund's shareholders has increased from 60 to 85, or 42 per cent; and that approximately 60 per cent of the increase in shares apparently went to new shareholders who became such since the matter was considered in 1953.

Although the purpose and mode of operation of the Fund may remain much the same as a year ago, the Board believes that during the past year there has been material change in the situation arising from the increases with respect to the Fund's shares and shareholders as indicated above. Therefore, on the basis of the most recent information presented, the Board believes that the interlocking relationship in question should be regarded as prohibited by section 32. Consequently, unless there is further information bearing upon the applicability of the statute which Mr. Liddell may wish to bring to the attention of your Bank and the Board, it is assumed that steps will be undertaken in due course to bring the matter in question into conformity with the statute.

In this connection, unanimous approval was also given to a letter to the Comptroller of the Currency reading as follows:

Under date of February 24, 1953, your office presented to the Board the question whether section 32 of the Banking Act of 1933, as amended, prohibited an interlocking relationship between the National State Bank of Elizabeth, Elizabeth, New Jersey, and Templeton & Liddell Fund, Inc., New York City, an open-end investment company.

By its letter to you of May 21, 1953, the Board said that, while the question was a close one, the Board did not feel that the evidence was sufficiently clear to support a definite conclusion at that time that the interlocking relationship was unlawful. However, the Board's letter related that the situation would be reviewed at the end of 1953 and that if the facts at that time were such as to indicate that the statute should be regarded as applicable, you would be so advised.

The review of the matter has now been completed, and there is enclosed for your information a copy of the Board's letter of this date to the Federal Reserve Bank of New York. You will note that on the basis of the most recent information presented, it is the Board's view that the interlocking relationship involving Mr. Donald M. Liddell, Jr., should be regarded as prohibited by section 32; and that unless there is further information bearing upon the applicability of the statute which Mr. Liddell may wish to bring to the attention

of the Board, it is assumed that steps will be taken in due course to bring the matter in question into conformity with the statute.

Prior to this meeting there had been circulated to the members of the Board a draft of letter to the Board of Directors of the Randallstown Bank, Randallstown, Maryland, reading as follows:

> Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors approves the establishment of a branch at Woodmoor on Liberty Road about one and one-half miles from the Baltimore City line in Baltimore County, Maryland, provided the capital structure of the bank is increased by not less than $100,000; that formal approval is obtained from the appropriate State authorities; and that the branch is established within six months from the date of this letter.
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> In applying for approval of this branch, it was indicated that the capital structure of the bank would be increased through the sale of additional common stock for $75,000; that the preferred stock of $25,000 would be retired; and that a stock dividend of 33-1/3 per cent would be declared from undivided profits. This proposal would result in a net increase in the bank's capital structure of $50,000. Since the present capital structure of the bank is low in relation to the volume of business and character of assets, the Board feels that at least $100,000 of additional capital funds should be provided before the bank expands branchwise.

Mr. Sloan stated that although the Randallstown Bank was well managed and although the Federal Reserve Bank was of the opinion that in view of the good condition of the institution the plan proposed by the bank, which would result in a net increase of $50,000 in its capital structure, would provide sufficient capital, it appeared to the Division of Examinations that the bank should be required to increase its capital structure in the net amount of at least $100,000 if the establishment of

the branch was approved. In support of this conclusion, he referred particularly to the low ratio of the bank's capital to its adjusted risk assets and stated that the institution appeared to have been definitely undercapitalized for a number of years.

Thereupon, the letter to the Board of Directors of the Randallstown Bank was approved unanimously in the form set forth above, for transmittal through the Federal Reserve Bank of Richmond.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 16, 1954, were approved unanimously.

Letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., (Attention: Mr. W. M. Taylor, Deputy Comptroller of the Currency) reading as follows:

Reference is made to a letter from your office dated February 24, 1954, enclosing photostatic copies of an application to organize a national bank at Bay Minette, Alabama, and requesting a recommendation as to whether or not the application should be approved.

Information contained in an investigation of the application, made by an examiner for the Federal Reserve Bank of Atlanta, is generally favorable with respect to the factors usually considered in connection with such applications, except that the proposed capital structure may be somewhat weak if the volume of business anticipated by the proponents is obtained. It is reported also that definite arrangements have not been made for an experienced executive officer. If these matters are resolved to the

satisfaction of your office, the Board of Governors recommends approval of the application.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office, if you so desire.

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks reading as follows:

In letters dated November 10, 1921, and August 6, 1941, (X-3245; F.R.L.S. 8330 and S-277; F.R.L.S. 8330.1) the Board approved actions taken by the Conference of Federal Reserve Bank Governors and the Conference of Presidents of the Federal Reserve Banks, respectively, restricting the furnishing of credit information. As you know, this matter came before the Presidents' Conference again recently because of a question which was raised with respect to the furnishing of credit information to foreign central banks, and it was the consensus of the Conference that the actions of the Governors' Conference in 1921 and of the Presidents' Conference in 1941 should not be interpreted as prohibiting a Federal Reserve Bank from furnishing such information.

The Board likewise is of the opinion that it is proper for a Federal Reserve Bank to furnish credit information with respect to banks and business concerns, including information as to the financial condition and reputation of the management, to foreign central banks for which it maintains accounts, with the understanding that the Federal Reserve Bank shall not supply information obtained from bank examination reports or any information concerning banks which would be inconsistent with its position as a supervisory authority. The furnishing of such information is deemed to be in accordance with the provisions of the Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks, dated January 1, 1944, and enclosed with the Board's letter of December 14, 1943 (S-718; F.R.L.S. 5720).

Approved unanimously, together with the following letter

to Mr. Young, Chairman, Conference of Presidents of the Federal Reserve Banks:

There is enclosed for your convenient reference a copy of a letter that has been sent by the Board to the Presidents of all Federal Reserve Banks with regard to the furnishing of credit information to foreign central banks.

As you will recall, the current policy of the Federal Reserve Banks in respect to the furnishing of credit information to parties within the United States reflects actions taken by the Conference of Federal Reserve Bank Governors and the Conference of Presidents of Federal Reserve Banks in 1921 and 1941, respectively, and approved by the Reserve Board. In view of the time that has elapsed, it would seem worth-while for the matter to be reviewed to determine whether any modification of policy would be in order, or at least whether it would be desirable to incorporate in one statement the substance of the 1921 and 1941 actions, along with a paragraph relating to the furnishing of credit information to foreign central banks. Accordingly, it will be appreciated if the Board could have the benefit of the views of the Presidents' Conference on the matter.

S. Sherman
Secretary