Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, April 30, 1954. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Leonard, Director, Division of Bank Operations
Mr. Farrell, Chief, Reserve Bank Budget and Expense Section, Division of Bank Operations

Before this meeting there had been circulated among the members of the Board for approval a draft of letter to the Presidents of all Federal Reserve Banks reading as follows:

Beginning with the first quarter of this year, it is planned to include in the Board's Functional Expense Exhibits the number of items handled per man hour, as well as the salary cost per 1,000 items, for the measurable activities.

In order that back data may be available to recipients of this information, a set of tables has beenprepared showing items handled per man hour for the period from 1951 through 1953. These data reflect production trends at the various Reserve Banks and branches in those activities for which volume and man-hour data are reported on Schedule X of Form F. R. 96, and were compiled from such reports.

Enclosed are three sets of the retrospective tables. Additional sets of these tables are being forwarded to your Bank and branches, if any, in quantities corresponding to instructions for mailing the Functional Expense Exhibits.

It is also planned to revise Schedule X of Form F. R. 96 to provide for reporting items per man hour. However, in view of the stock of these forms now on hand at the Banks, this revision will probably not be made until next fall. In the meantime, the items-per-man-hour figures shown in the quarterly Functional Exhibits will be computed at the Board.

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Governor Vardaman stated thatthere was some question in his mind whether the additional work that would be required to prepare the proposed information regarding man-hour production would be justified by the use to be made of the data.

Governor Robertson said that he had been interested in having man-hour data as well as salary cost data in using the Board's functional expense exhibits of the Federal Reserve Banks since it was his feeling that both types of information were necessary in order to enable the Board and the Federal Reserve Banks to make adequate comparative cost studies. It was his understanding that the Division of Bank Operations also had felt that man-hour data would be desirable as a stimulant to efficiency studies at the Federal Reserve Banks and that such figures could be provided at very little additional cost.

At Governor Robertson's request, Mr. Leonard commented on the additional work involved in obtaining man-hour data, stating that while preparation of the retrospective data had taken several hours of work, the time necessary to maintain the figures currently would be negligible, particularly since at least part of the Federal Reserve Banks already prepared such information for their own use.

Governor Vardaman inquired whether preparation of man-hour data once every three to five years would serve the purpose, and he also raised the question whether a request by the Board for the man-hour data might not be a step toward injecting the Board's supervision into the Federal

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Federal Reserve Bank of St. Louis

Reserve Banks unnecessarily, it being his view that the Board should not "run the Banks". He could see no end to collection of information of this sort. If the Board felt inclined to do so, it could extend its supervision of the Reserve Banks down to each day's operation and he did not think this was the correct supervisory concept. He added the comment that he would not have any objection to the collection of the information, however, if any other member of the Board wanted to receive it.

Mr. Leonard stated that in his judgment the functional expense exhibits, which were sent out to the Reserve Banks quarterly and annually, represented a most effective means for self-policing of expenses by the Reserve Banks. He pointed out that it was the general practice for Reserve Bank Presidents to call upon operating officers of the Banks to review the quarterly and annual expense reports and to ask the officers in charge of the various functions to explain reasons for differences in costs. It was Mr. Leonard's view that the addition of the man-hour data to the quarterly and annual reports would be desirable not only from the Board's standpoint but also from the standpoint of the Reserve Banks. It was also noted that the Federal Reserve Banks had had a great deal to do with the formulation of the functional expense figures over a period of many years and that the regular preparation of man-hour data would be in accordance with suggestions which representatives of at least some of the Reserve Banks had made from time to time.

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Chairman Martin expressed the view that the Board could perform a very useful function for the Reserve Banks by providing as much information of this sort as would actually be used by them in checking on the efficiency of their operations. He did not feel that this had anything to do with the Board's "running the Banks" per se.

Thereupon the letter was approved unanimously.

There was presented a telegram to the Federal Reserve Bank of New York stating that the Board approves the establishment without change by that Bank on April 29, 1954, of the rates of discount and purchase in its existing schedule.

Approved unanimously.

Governor Robertson stated that the editors of Banking, the monthly journal of the American Bankers Association, were preparing an article for publication in the June issue describing the Inter-Agency Bank Examination School. He stated that they desired to include an informal picture of the heads of the three Federal bank supervisory agencies in the article. None of the members of the Board who were present indicated any objection to the procedure outlined by Governor Robertson.

Governor Robertson stated that the Senate Banking and Currency Committee held hearings yesterday on the bill, S. 3158, to eliminate cummulative voting of shares of stock in the election of directors of national banking associations, and that following the hearings Senator Robertson had called on the telephone to inquire as to the Board's position with respect

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to the bill. He said he referred the Senator to Chairman Martin's letter of April 29, 1954, to Senator Capehart, Chairman of the Senate Committee on Banking and Currency, as indicating a position which had been approved by all members of the Board.

Governor Robertson then reviewed in general terms a survey recently completed by the Division of Examinations regarding member State banks which had been classed as problem cases. The substance of the review is contained in a memorandum prepared by the Division of Examinations under date of April 30, 1954.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 29, 1954, were approved unanimously.

Memorandum dated April 23, 1954, from Mr. Bethea, Director, Division of Administrative Services, recommending that the resignation of Ida Sutphin, Cafeteria Helper in that Division, be accepted effective May 7, 1954.

Approved unanimously.

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

> In accordance with the request contained in your letter of April 26, 1954, the Board of Governors approves the designation of the following as Special Assistant Examiners for the Federal Reserve Bank of Chicago:

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Wendell R. Adkins	Thaddeus L. Majka
Kenneth L. Chrisner	Theodore F. Mickiewicz
Kenneth Clise, Jr.	Anthony Morawski
Frederick S. Dominick	John T. Neale
Peter F. Enderle	Richard S. Skalski
Percival R. Guilder	Walter Wotherspoon
William E. Horbal	

The Board also approves the designation of the following as Special Assistant Examiners and cancels their designation as Special Assistant Examiners as previously approved on a restrictive basis:

Joseph Lazevnick
Walter Mills
G. Neff

Appropriate notations have been made on our records of the names to be deleted from the list of Special Assistant Examiners.

Approved unanimously.

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

In accordance with your letter of April 20, 1954, the Board of Governors approves the payment of salary to your Building Elevator Starter, Samuel Martin, Jr., at an annual salary rate of $4,530 which is 6 3/4 cents per hour in excess of the present union contract and $260 per annum in excess of the maximum salary limit of the Bank grade to which this position is assigned.

The Board understands that this rate is in line with the "loop" policy of paying premium rates for this type of work.

Approved unanimously.

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

This refers to your letter of March 15, 1954, and its enclosures, regarding the request made by Mr. J. E. Hickory on behalf of Addison Investment Company that the Board determine that such Company is not a holding company affiliate (except for the purposes of section 23A of the Federal Reserve Act).

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It is understood that Addison Investment Company was organized for the purposes of buying and selling automobile paper; that the Company is presently used mainly to finance certain operations in which Mr. J. E. Hickory has a personal interest; that the Company is a holding company affiliate of The First National Bank of Burr Oak, Burr Oak, Michigan, by reason of the fact that it owns more than 50 per cent of the number of shares voted at the latest election of directors of such bank; and that over 40 per cent of the assets of the Company are invested in shares of stock of the national bank.

As you know, section 2 of the Banking Act of 1933, as amended, excludes from the definition of "holding company affiliate" any company which is determined by the Board not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies. While this provision refers to banks in the plural, it is believed that, under rules of statutory construction prescribed by Congress it also includes the singular. Although Addison Investment Company controls only one bank, it appears to be engaged substantially in the business of holding bank stock.

On the basis of all of the facts of the case as presented to the Board and in view of the nature of the Company's business, the Board has concluded that it would not be warranted in making the determination requested, and it will be appreciated if you will so advise Addison Investment Company. Consequently, the Company will not be in a position legally to vote the stock of The First National Bank of Burr Oak unless a voting permit is obtained from the Board.

Approved unanimously, with copies to The Comptroller of the Currency, Washington, D. C.

Letter to Mr. Peterson, Vice President, Federal Reserve Bank of St. Louis, reading as follows:

Reference is made to the report of examination of The Union Bank, Loogootee, Indiana, made as of March 6, 1954, which shows that the bank is acting as corporate trustee and paying agent for two local school building bond issues with

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$86,000 par value of obligations outstanding. It is noted the bank is authorized to exercise full fiduciary powers under its charter and the laws of the State of Indiana but was not exercising such powers at the time of admission to membership in 1942 and since then has not applied for the Board's permission to do so as required by condition of membership numbered 1.

It also is noted the appointments under which the bank is now acting originated sometime prior to an examination made as of June 12, 1953, and that in your letter of August 19, 1953, transmitting such report, you directed attention to the existing violation of condition of membership numbered 1 but stated that the accounts in question were acquired inadvertently and management did not intend to accept additional fiduciary appointments of any kind. In the circumstances, you recommended that the Board interpose no objection to the bank continuing to act as corporate trustee and paying agent of these accounts.

Due to an oversight, your recommendation of August 19, 1953, was not presented to the Board. Therefore, the Board now wishes to concur in your recommendation and will have no objection to The Union Bank, Loogootee, Indiana, continuing to act as corporate trustee and paying agent of the two bond issues now under administration. However, no further fiduciary appointments should be accepted by the bank without it first having obtained the permission of the Board to so act. Please advise the bank accordingly.

Approved unanimously.

Letter to Mr. Woolley, Vice President, Federal Reserve Bank of Kansas City, reading as follows:

This refers to your letter of April 19, 1954, with its enclosures, regarding a question presented by the Eaton Bank, Eaton, Colorado, a State member bank, as to whether a proposed arrangement between that bank and the Securities Credit Corporation of Denver, Colorado, would involve a payment of interest on demand deposits in violation of Regulation Q.

While the exact nature of the proposed arrangement is not entirely clear, it is understood that the bank would extend credit to the Corporation on the basis of certain installment paper received by the bank from the Corporation and that, in calculating the amount of interest payable by the Corporation

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to the bank, there would first be deducted from the principal amount of the credit the amount of a cash margin or reserve which would be set aside in a demand deposit account with the bank by the Corporation but which, it is assumed, would not be subject to withdrawal. For example, if the credit amounted to $100,000, and a cash margin or reserve of $7,500 were set aside, interest at the rate of 4-1/2 per cent would be computed on the basis of $92,500.

As you know, it has been the Board's general policy for many years not to pass upon the question whether particular practices involve a payment of interest in violation of Regulation Q, except after consideration of all the facts and circumstances of a specific case as developed by examinations of the member bank involved, but to rely instead upon the cooperation and good faith of member banks in adapting their practices to conform to the spirit and purpose of the law and the Board's regulation. This policy has proved to be the most feasible basis for dealing with questions of this kind. However, as the Board understands the facts in the present case, interest is charged by the bank at the agreed rate on the net amount of the credit available for withdrawal, and no interest is charged on that part of the proceeds which is retained by the bank as a "reserve" and set up as a nonwithdrawable deposit. This view of the matter, if factually correct, suggests that the proposed arrangement would involve no question as to a payment of interest on the deposit.

Approved unanimously.

Letter to Mr. Crane, Federal Reserve Agent, Federal Reserve Bank of New York, reading as follows:

This refers to the request contained in your letter of September 14, 1953, that the Board approve a proposal for the shipment of new Federal Reserve notes of the Federal Reserve Bank of New York from Washington to New York by armored car and airplane instead of by registered mail.

As you know, this proposal was not considered by itself. At the Board's suggestion, it was reviewed by the Subcommittee on Cash, Leased Wire, and Sundry Operations of the Conference of Presidents of the Federal Reserve Banks as part of its consideration of various possibilities of transporting currency.

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In this connection, the Subcommittee initiated conversations with representatives of the Post Office Department regarding postal surcharges on shipments of currency, which culminated in reductions effective May 1, 1954, in the surcharge rates on shipments in amounts subject to surcharge of over $1,000,000.

Earlier in the year you and President Sproul were informed of the negotiations and advised that if they were successful the shipment of new Federal Reserve notes from Washington to New York by mail should be continued. The status of the negotiations and the general position regarding continued use of the mails were later discussed at the joint meeting of the Presidents of the Reserve Banks and the Board of Governors on March 3. The Federal Reserve Agents and the Presidents of the Federal Reserve Banks were advised in the Board's letter of April 16 of the substantial reduction in surcharges effective May 1, 1954.

At the joint meeting on March 3 there was agreement with the understanding that even though shipments to New York by registered mail at the reduced charges would cost somewhat more than the proposal contained in your letter of September 14, 1953, the savings for the System as a whole would be substantial enough to drop further consideration of that proposal. In these circumstances, the matter will be regarded as closed.

Approved unanimously.

Letter for the signature of Mr. Vest, General Counsel, to Mr. Robert A. Bicks, Executive Secretary, Attorney General's National Committee To Study The Antitrust Laws, Department of Justice, Washington, D. C., reading as follows:

This refers to your letter of April 6, 1954, and enclosures asking for certain data for use by your Committee. The following information is submitted in answer to your five questions:

(1) The only statute which the Board of Governors enforces or administers which contains a standard or statement regarding promotion of competition or avoidance of competitive injury is section 7 of the Clayton Antitrust Act, 15 U.S.C. 18. A copy of this provision is enclosed. The Board also administers section 8 of the Clayton Antitrust Act, 15 U.S.C. 19, but this

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statute is somewhat detailed in character and does not contain a standard or statement regarding promotion of competition or avoidance of competitive injury. A copy of the Board's regulation on this subject, including the relevant statute, is enclosed.

(2) No administrative rulings or official policy statements have been issued by the Board of Governors regarding promotion of competition or avoidance of competitive injury, except as indicated under items 3 and 4 below.

(3) The Board of Governors from time to time issues voting permits under section 5144 of the Revised Statutes, 12 U.S.C. 61, authorizing holding company affiliates to vote the stock of member banks owned by them; approves the admission of State banks to the Federal Reserve System under section 9 of the Federal Reserve Act, 12 U.S.C. 321 (which automatically entitles the banks to Federal deposit insurance, 12 U.S.C. 1816, 12 U.S.C. 1814(b)); approves the establishment of branches by State member banks pursuant to section 9 of the Federal Reserve Act, 12 U.S.C. 321; and approves mergers, consolidations and conversions, pursuant to section 18(c) of the Federal Deposit Insurance Act, 12 U.S.C. 1828(c). In addition the Board is often consulted by the Federal Deposit Insurance Corporation and the Comptroller of the Currency regarding the establishment of branches by insured nonmember banks and national banks and regarding the chartering of national banks. Although promotion of competition or avoidance of competitive injury are not specifically mentioned in the statutes relating to these matters, the Board of Governors in administering these functions, gives consideration to such questions whenever they appear to be relevant. However, no fixed criteria have been formulated or adopted, each case being considered on its merits in the light of its own facts, the provisions of the applicable statute and the purposes of the antitrust laws. (National Broadcasting Co. v United States, 319 U.S. 190, 223). In this connection it may be mentioned that the Board has requested each Federal Reserve Bank, in transmitting to the Board an application received by it from a State member bank for the Board's permission to establish a branch, to indicate, among other things, "whether establishment of branch will tend to create a monopoly or an undesirable competitive advantage in relation to other banks, including unit banks, in the area." It may also be mentioned that in connection with the exemption in section 8 of the Clayton Act of interlocking relations between banks not having

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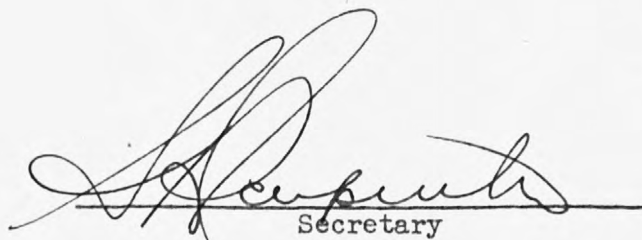
offices in the same city, town or village or in "contiguous or adjacent" cities, towns or villages, the Board has stated in the 1935 Federal Reserve Bulletin at page 834 with respect to the terms "contiguous or adjacent" that: "In any case where there is doubt in applying these provisions, consideration may properly be given to the question whether there is any substantial conflict of competitive interest between the banks of one city, town, or village and the banks of the other."

(4) The Board of Governors has made only one reported decision in which promotion of competition or avoidance of competitive injury was considered and analyzed. This was in the Clayton Act proceeding against Transamerica Corporation. The Board's Findings, Conclusion and Order were reported in the 1952 Federal Reserve Bulletin at page 368. For your convenience a copy is enclosed. The Board's Order was set aside by the Court of Appeals for the Third Circuit, 206 F.2d 163, and certiorari was denied by the Supreme Court of the United States. The opinion of the Court of Appeals indicated that the theory upon which the Board based its decision did not meet the legal tests which were required under section 7 of the Clayton Act to determine whether Transamerica's bank stock acquisitions tended to create a monopoly of commercial banking. The opinion also said that it may well be in the public interest to have appropriate legislative action on this subject.

(5) The Board does not have a formal procedure for liaison with the Department of Justice Antitrust Division. However, in connection with the Clayton Act case against Transamerica Corporation mentioned in 4 above, the subject was discussed informally with that Division on several occasions. Similar informal discussions would be held in other instances whenever they seemed appropriate.

Please let us know if there is any other information we can supply in this connection.

Approved unanimously.



Secretary

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