

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, June 24, 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. Marget, Director, Division of
International Finance
Mr. Sloan, Director, Division of Examinations
Mr. Solomon, Assistant General Counsel
Mr. Goodman, Assistant Director, Division
of Examinations
Mr. Hackley, Assistant General Counsel
Mr. Cherry, Legislative Counsel

Chairman Martin presented a letter addressed to him under date of June 23, 1954, by Congressman Patman, who stated that Chairman Martin's letter of June 22, which was approved at the meeting of the Board on that date, failed to give him information he sought as to whether Chairman Martin favored or opposed the resolution Mr. Patman had presented to the House Banking and Currency Committee requesting the General Accounting Office to review the reports of examination of the twelve Federal Reserve Banks and the audits of accounts relating to the System open market transactions for the Federal Reserve Banks which were transmitted by the Board to the Banking and Currency Committee on June 14, 1954. He also stated that he had never seen Chairman Martin's letter of June 14 to Chairman Wolcott, of the Banking and Currency Committee, transmitting the reports

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of examination and had no knowledge of it except for having heard it mentioned in discussions. Congressman Patman further stated that he saw no reason why Chairman Martin should be corresponding with the Chairman of the Committee on this particular matter without keeping him (Mr. Patman) advised.

Following a discussion of the matter, during which the members of the Board agreed that it would be improper for Chairman Martin to express an opinion with respect to Congressman Patman's resolution unless asked for such opinion by the Banking and Currency Committee, unanimous approval was given to a letter from Chairman Martin to Congressman Patman reading as follows:

I have your letter of June 23, in reply to my letter of June 22, regarding the examination reports of Federal Reserve Banks which have been delivered to the House Banking and Currency Committee.

In your letter to me of June 16 relating to this matter, you stated that at a meeting of the Banking and Currency Committee you had presented a resolution, a copy of which you enclosed, for passage by the Committee and that, after discussion, it was decided that Chairman Wolcott would confer with me before proceeding with the matter further.

I think you will agree with me that in these circumstances and in the interest of orderly procedure it is preferable that communications on official matters pending before the House Committee on Banking and Currency should be with the Chairman of that Committee.

Mr. Cherry then withdrew from the meeting.

Prior to this meeting there had been circulated to the members of the Board a memorandum from Mr. Solomon dated June 14, 1954, relating developments in connection with a proposal by The Chase National Bank of

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the City of New York, New York, New York, to organize a foreign finance company in which the national bank could own stock. The foreign finance company, which would purchase from exporters paper covering exports of various durable goods, would advance the exporter only about 75 per cent of the face amount of the paper, requiring him to supply the funds and bear the risk for the remainder. The exporter might also be required to own a certain amount of stock in the company. The Export-Import Bank might guarantee the foreign finance company, which would sell notes or debentures to get most of the funds for its operations, against part of the risk in the paper.

Mr. Solomon's memorandum referred to informal discussions of the matter between representatives of the national bank and representatives of the Board and the Federal Reserve Bank of New York and indicated why it had been suggested to Mr. Roy Haberkern, Counsel for the national bank, that the proposed corporation be chartered by the Board as a so-called "Edge corporation" under section 25 (a) of the Federal Reserve Act rather than as a State-chartered foreign banking corporation which would enter into an agreement with the Board under section 25 of the Act. The memorandum stated that it had also been suggested to Mr. Haberkern that he indicate the changes which he would consider desirable in the Board's Regulation K, Banking Corporations Authorized to do Foreign Banking Business under the terms of Section 25 (a) of the Federal Reserve Act, if the foreign finance company were to operate as an "Edge corporation".

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In this connection, the memorandum pointed out that as a practical matter any changes in Regulation K would be available to others who might wish to undertake such operations but might not be as sound in their approach and that, accordingly, it seemed desirable that the changes, while avoiding unnecessary restrictions, should provide a framework for reasonably sound operations.

The memorandum went on to state that Mr. Haberkern had outlined his suggested changes in Regulation K in a letter to Mr. Tiebout, General Counsel for the Federal Reserve Bank of New York, that the matter had been discussed further with representatives of the Chase National Bank and with Mr. Tiebout and Mr. Crosse, Assistant Vice President of the New York Reserve Bank, and that on the basis of those discussions it seemed desirable to submit to Mr. Haberkern for his comments and criticism a draft of possible amendments to Regulation K which would modify somewhat the changes he had outlined. This draft would be sent to Mr. Tiebout for transmission to Mr. Haberkern. The memorandum said it was not proposed at this time that the Board approve the draft, but merely that the Board authorize the submission of the draft to Mr. Haberkern for his comments.

Following a statement by Governor Szymczak in which he outlined the background of the proposal to establish a foreign finance company and the current status of the informal discussions, Mr. Marget commented that there appeared to be a gap in the area of intermediate-term financing of

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international trade and that, speaking in terms of broad policy, it would seem desirable for the Board to regard sympathetically this type of proposal for the development of private institutions in that field. In response to a question, Mr. Marget said that the proposal for organization of a foreign finance company was first put forward by representatives of the Chase National Bank several months ago at a meeting at the Treasury Department which was attended by representatives of the Treasury, the Export-Import Bank, and the Board of Governors.

Chairman Martin and other members of the Board indicated that they were sympathetic in general terms to a proposal such as that advanced by the Chase National Bank, but that any specific proposal should be given very careful consideration. They also indicated that they would not be prepared at this stage to take a position which would commit the Board to revisions in Regulation K of the type proposed in Mr. Solomon's memorandum if the national bank should indicate that it favored such amendments.

In the circumstances, the question was raised whether the transmitting of the suggested changes in Regulation K to Mr. Haberkern would in effect so commit the Board. Mr. Solomon responded that, while that was not the intention, it was his feeling that the suggestions should not be transmitted to Mr. Haberkern if the Board was not inclined to favor, in general terms, the proposal for organization of a foreign finance company and if the Board was not prepared to consider the possibility of amendments to Regulation K along the lines suggested which would facilitate the operations of the company. It was for this reason, he said, that the members of

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the staff who had been studying the matter wished to bring it to the attention of the Board at this stage before proceeding further.

Following a discussion of this point, reference was made to the hearings currently being held by the System Committee on Foreign Operations of American Banks as a part of the study being conducted by that Committee and inquiry was made as to whether any views expressed to the Committee by interested parties were such as to have a bearing on the foreign finance company proposal. Mr. Goodman replied that views expressed by certain commercial bank representatives during the hearings tended to confirm the statement made by Mr. Marget that there was a need for additional facilities for intermediate-term financing of American foreign trade.

It was then suggested that the draft of amendments to Regulation K which accompanied Mr. Solomon's memorandum of June 14 be submitted to Mr. Haberkern through Mr. Tiebout, with a letter of transmittal to Mr. Tiebout from Mr. Solomon which would indicate that the Board had not acted on the draft of amendments and that the draft was being brought to Mr. Haberkern's attention in order to have the benefit of his views on any aspect of the matter.

This suggestion was approved unanimously.

Messrs. Thurston, Marget, Sloan, and Goodman then withdrew from the meeting.

In accordance with the understanding at the meeting on June 7, 1954, that further consideration would be given to the matter at a meeting

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following the return of Governor Vardaman, reference was made to a memorandum prepared under date of June 4, 1954, by Messrs. Carpenter and Hackley dealing with the legal and practical considerations involved in actions by the Board in the absence of a quorum. This memorandum had been submitted pursuant to the request at an executive session of the Board on June 2. There had also been sent to the members of the Board prior to this meeting copies of a memorandum prepared by Mr. Solomon under date of June 21 submitting a draft of a resolution which, if adopted, would make explicit the agreement of the Board to procedures currently being followed. This resolution had been drafted in accordance with a suggestion made by Governor Robertson at the meeting on June 7.

Following a statement by Chairman Martin that it seemed desirable to review the current procedures in view of the possibility of absences of members of the Board during the summer season, Governor Vardaman stated that although he had not studied the memorandum and draft of resolution carefully, his tentative position was that the procedures now in effect were satisfactory and should be continued. He also expressed himself as opposing the formalization of those procedures by adoption of a resolution, stating that he did not believe any fixed procedures would be workable and that in his opinion the mechanism must be left flexible in order to take care of situations that might arise from time to time.

Governor Robertson then stated that he would like to give further thought to the matter, and in the circumstances it was agreed that the matter would be held over for further consideration at another meeting of the Board.

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All of the members of the staff then withdrew from the meeting and the Board went into executive session.

Thereafter, the Secretary was informed by the Chairman that during the executive session the Board accepted the resignation of Mr. Allen, Director of the Division of Personnel Administration, effective as of the close of business on June 30, 1954, and in that connection approved unanimously the following letter from the Chairman to Mr. Allen:

Although the Board has accepted your resignation as a member of its official staff, it does not regard it as a resignation in the usual sense since you will still be one of the group which has a large part to play in the handling of personnel problems and in developing the policies of the System with respect to personnel.

The members of the Board appreciate greatly the interest you have taken in the welfare of the Board's staff, the manner in which you have handled their problems, and the contributions you have made to the solution of the many problems that have come before the Board. We are pleased that an opportunity has come to you to get experience in your chosen field at a Federal Reserve Bank and we wish you every success in your new association.

The Secretary also was informed by the Chairman that the Board had approved unanimously a request from Mr. Young, Director, Division of Research and Statistics, for authority to travel from Southampton, Long Island, New York, to New York City and return to Southampton on June 28, 1954, in order to attend a meeting of the Committee on Research in Finance of the National Bureau of Economic Research to be held in New York City.

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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 June 23, 1954, were approved unanimously.

Minutes of the meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks held on June 23, 1954, were approved unanimously.

Memorandum dated June 18, 1954, from Mr. Young, Director, Division of Research and Statistics, recommending that the resignation of Patricia V. Johnson, Secretary in that Division, be accepted effective July 2, 1954.

Approved unanimously.

Letter to Mr. Angney, Assistant Vice President, Federal Reserve Bank of Boston, reading as follows:

For the reasons set forth in your letter of June 15, 1954, the Board extends until October 31, 1954, its time limitation with respect to the placement of all salaries of employees, other than officers, within the respective grade limits as established by the Board's letter of May 21, 1954.

Approved unanimously.

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

Reference is made to your letter of June 15, 1954, submitting the request of the Manufacturers Trust Company, New York, New York, for an extension of time within which it may establish a branch at 63-63/65 108th Street, Forest Hills, Queens County, New York.

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It is noted that the applicant bank has revised its original plans for remodeling the interior of the proposed branch, resulting in a delay in obtaining bids from various contractors on the work to be done.

On the basis of the information submitted and in accordance with your recommendation, the Board of Governors extends to November 16, 1954, the time within which the Manufacturers Trust Company may establish a branch at the location stated above under approval given by the Board in its letter dated February 16, 1954.

Approved unanimously.

Letter to the Board of Directors, Norfolk County Trust Company, Brookline, Massachusetts, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Boston, the Board of Governors of the Federal Reserve System approves the establishment of a branch at the New England Industrial Center on Highland Avenue in Needham, Massachusetts, by the Norfolk County Trust Company, provided the branch is established within six months from the date of this letter.

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

Memorandum dated June 21, 1954, from Mr. Sloan, Director, Division of Examinations, submitting for approval letters to the following foreign banking corporations, the first four of which were organized under State laws but operate under agreements made with the Board pursuant to the provisions of section 25 of the Federal Reserve Act, and the last two of which were chartered by the Board under the provisions of section 25(a) of the Act, requesting that they submit reports of condition as of June 30, 1954:

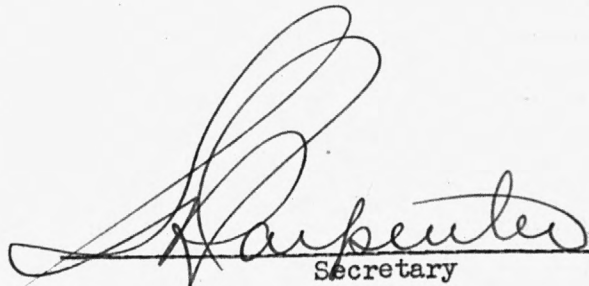
Bankers Company of New York
First of Boston International
Corporation

New York, New York
New York, New York

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International Banking Corporation	New York, New York
Morgan & Cie. Incorporated	New York, New York
Bank of America	New York, New York
The Chase Bank	New York, New York

Approved unanimously, with the understanding that the letters would be mailed on July 1, 1954, and that copies would be sent to the Federal Reserve Bank of New York.



Secretary