

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, July 12, 1954. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Sloan, Director, Division of Examinations
Mr. Hackley, Assistant General Counsel
Mr. Youngdahl, Assistant Director, Division of Research and Statistics

At the request of Governor Mills, there was a discussion of developments in connection with the current study of the Federal Reserve discount mechanism. In this connection there had been sent to the members of the Board copies of a memorandum to Governor Mills from Mr. Hackley dated July 7, 1954, discussing an attached copy of the latest draft of a proposed revision of Regulation A, Discounts for and Advances to Member Banks by Federal Reserve Banks, in which there had been indicated by inserts and interlineations certain additional changes in the language of the proposed revision. There had also been sent to the members of the Board copies of papers prepared by certain Federal

7/12/54

-2-

Reserve Bank economists concerning various aspects of the discount and discount rate mechanism, which papers were submitted and discussed during the June meeting of the Presidents' Conference.

Mr. Young, who had been in charge of staff work on the study of the discount mechanism, made a statement at the request of the Board in which he explained that the latest draft of a proposed revision of Regulation A was intended to meet some of the points developed by the Reserve Bank Presidents during the meeting of the Presidents' Conference. He also said that, on the whole, the reaction of the Presidents to the draft of revised regulation which they had before them was favorable. However, a minority of the Presidents questioned the need for issuing a revised regulation at this particular time, and some of the Presidents expressed the feeling that final action on a revised regulation should be deferred until the System Committee on the Discount and Discount Rate Mechanism had presented its report on the discount rate. In this connection, Mr. Young stated that work had not progressed very far on the discount rate study, although Vice Presidents Bopp and Mitchell, of the Federal Reserve Banks of Philadelphia and Chicago, respectively, had been assigned to draft portions of the report and it was hoped to have their drafts available by early September. From that point, he said, every effort would be made to move as rapidly as possible toward the preparation of a complete report.

Mr. Young also commented that the principal features of the proposed revision of Regulation A were the incorporation of a set of

7/12/54

-3-

general principles as a foreword, amendment of the regulation proper to make its provisions consistent with the general principles, and elimination of certain provisions of the current regulation for which there was no need at the present time.

Mr. Young concluded by referring to the fact that some of the Reserve Bank Presidents had suggested the possibility of revising the committee report on the discount mechanism to bring it in line with the latest draft of the proposed revision of Regulation A. He added, however, that neither this point nor the question of deferring final action on a revised Regulation A pending completion of the report on the discount rate was debated at any length, so that it was difficult to determine how strongly the Presidents felt on these points.

Mr. Hackley then discussed the changes in the language of the proposed revision of Regulation A, as referred to in his memorandum of July 7, following which Mr. Vest stated that, although he did not think it was a vital matter, he had some feeling that since the studies of the discount mechanism and the discount rate were related in certain respects, the second study might suggest points which had not been considered to date in the study of the discount mechanism. For this reason he thought there might be some advantage in completing the study of the discount rate before taking final action on a revised Regulation A.

Mr. Vest also suggested the advisability of advance publication of the revised regulation in the Federal Register, stating that in his judgment such advance publication was required technically by the Administrative

7/12/54

-4-

Procedure Act and that in any event it would be in line with the usual Board practice and with the spirit of the Act.

In response to an inquiry by Governor Vardaman, Mr. Vest said that publication of a proposed revision of Regulation A in the Federal Register would not commit the Board to final action on it, although the publication would be an indication of the Board's intent to take action of some kind. If it should be decided thereafter to make material changes from the proposed regulation as published, he thought that it might be advisable to republish.

At the request of the Board, other members of the staff then offered comments and there appeared to be unanimity of opinion regarding the importance and desirability of issuing a revised Regulation A along the lines of the latest draft submitted. In the course of these comments, statements were made regarding the question of a revised committee report on the discount mechanism, or a supplement thereto, the question of whether action on a revised Regulation A should be deferred pending completion of the study concerning the discount rate, and the advisability of timing adoption of a revised regulation so that it might be coordinated with System credit policy and money market conditions. In addition, suggestions were made by members of the Board and the staff for additional changes in the wording of the general principles and the body of the regulation.

Governor Mills, Chairman of the System Committee on the Discount and Discount Rate Mechanism, said he felt that during the course of the

7/12/54

-5-

study thus far a great deal of progress had been made in clearing away misunderstandings. He also pointed out that this was particularly important because the whole objective of the study would be defeated if the revised regulation was interpreted by those administering it in such a way that discounting by member banks was deterred and flexibility in the discounting procedure was not achieved. For these reasons, he felt that every effort should be made to improve the language of the revised regulation so that, to the fullest extent possible, it would be clearly understood. In an additional comment, Governor Mills said that personally he would not like to have the original committee report revised. He thought that the report could stand for many years as a technical and worth-while document which would emphasize the points that would have to be determined by the Reserve Banks in their administration of the discount function.

Consideration then was given to what course of action it would be preferable for the Board to take, and Governor Robertson proposed that the statement of principles, as distinguished from the proposed revised regulation, be published in the Federal Reserve Bulletin and that at the same time copies be transmitted to every member bank through the Federal Reserve Banks. If this procedure were followed, he felt that at the end of a reasonable period, perhaps six months, the Board would have the benefit of many points of view which would be helpful in perfecting a revised regulation. Governor Robertson further suggested that the statement of principles be turned over to the members

7/12/54

-6-

of the Federal Advisory Council with an explanation of the action contemplated by the Board and with a request that the members of the Council let the Board have their comments at the next meeting of the Board and the Council in September. Should members of the Council ask to see the committee report, he proposed advising them frankly that that report was in the nature of a preliminary document designed to bring forth comments and that, on the basis of the report and subsequent discussions and statements, the statement of principles in its present form had evolved.

The procedure suggested by Governor Robertson, and various modifications thereof, were discussed at some length. While it was recognized that a number of advantages might be gained through such a course of action, some reservations were expressed, principally on the grounds that a publication of the statement of principles by itself might lead to confusion in the minds of the public as to the intent of the Board. Chairman Martin then suggested that in the circumstances no definite decision on the procedure to be followed be made at this meeting, but that consideration be given to suggestions that had been advanced for perfecting the language of the proposed regulation, including the statement of principles, and that there be a further discussion of the matter at a meeting of the Board next week.

The procedure suggested by Chairman Martin was approved unanimously.

Mr. Young called attention to the Board's action of April 28,

7/12/54

-7-

1954, authorizing certain members of the staff to attend The Merrill Center for Economics in Southampton, Long Island, for stated periods this summer and said that Mr. Williams, Assistant Director of the Division of Research and Statistics, who had been authorized to attend during the period July 19 through July 30, would be unable to do so because of illness. He raised the question whether some other qualified member of the staff should be selected to attend in place of Mr. Williams.

The matter was discussed briefly, and Chairman Martin suggested that Mr. Young be authorized to make whatever decision seemed appropriate.

This suggestion was
approved unanimously.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on July 9, 1954, were approved unanimously.

Letter to Mr. Millard, Vice President, Federal Reserve Bank of San Francisco, reading as follows:

This refers to your letter of June 18 with which you enclosed application for limited fiduciary powers on behalf of Fidelity National Bank of Twin Falls, Twin Falls, Idaho.

Application has been made solely for authority to act as "trustee for owners of farm lands with respect to leasing and/or the supervision and management of farming and agricultural enterprises and/or the supervision and management of farm lands". It is noted, however, that in connection with the farm management services which the bank desires to furnish its customers, the majority, if not all, of such appointments will be handled under agency agreements, and only under unusual circumstances will it be necessary for the bank to act in

7/12/54

-8-

a trustee capacity. The Board is not empowered under the language of section 11(k) of the Federal Reserve Act to grant authority to national banks to act specifically in agency capacities. The only authority which the Board may grant in support of activities such as those proposed is contained in the language of the ninth or general power granting permission to act in "any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State in which the national bank is located".

As a grant of fiduciary powers embracing the authority contained in the general power above quoted would be necessary to support properly the activities proposed, action upon the application in its present form would be insufficient for the intended purposes. We are, therefore, returning the application to you with the suggestion that a new application be obtained from the national bank for powers numbered 1 and 9, but limited in their applicability to the management and operation of farm properties.

As an alternative to the above, and to both simplify the form of the application and to eliminate possible ambiguity with respect to the nature and extent of limitations imposed, it is suggested that further consideration be given to an application for full trust powers. It is understood that it is not the desire or intention of the bank to engage in general fiduciary activities. However, under a grant of full trust powers, the national bank would, of course, be free to limit its fiduciary activities in any way it saw fit.

Approved unanimously.

Letter to Mr. Howard C. Sheperd, Chairman of the Board, International Banking Corporation, 55 Wall Street, New York, New York, reading as follows:

This will acknowledge receipt of Mr. Lenfestey's letter of June 22, 1954, in reply to the Board's letter of May 21, 1954 transmitting the report of examination of your Corporation made as of the close of business December 17, 1953.

The Board has carefully considered the views stated in Mr. Lenfestey's letter as to the propriety of the acquisition and retention by your Corporation of the stock of The First National Bank and Trust Company of Ossining, and the Board

7/12/54

-9-

has reviewed the matter in the light of those views. The Board has again reached the conclusion that such shares should not be purchased or held by your Corporation, and it is pleased to note that your Corporation plans to dispose of the shares promptly. It will be appreciated if you will keep the Board informed as to progress being made in disposing of the shares and will advise the Board when the disposition has been completed.

Approved unanimously, with
a copy to the Federal Reserve
Bank of New York.

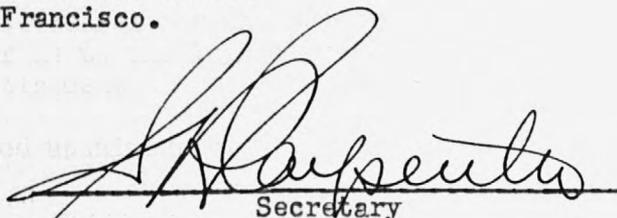
Letter to the Federal Deposit Insurance Corporation, Washington,
D. C., reading as follows:

Pursuant to section 8(a) of the Federal Deposit Insurance Act, you forwarded to the Board of Governors with your letter of July 15, 1953 a statement of unsafe and unsound practices engaged in by the First State Bank of Lynwood, Lynwood, California. Under date of July 28, 1953 the Board of Governors advised your Corporation that it had served notice upon the bank regarding the required corrections. Under date of January 7, 1954 the Board of Governors forwarded you a copy of a memorandum written by Vice President Millard of the Federal Reserve Bank of San Francisco, and invited your particular attention to the last paragraph of the memorandum which pointed out that the matters which had been referred to in the Board's notice had been substantially corrected, and suggested that additional time be given the bank.

The Board of Governors has now received a memorandum prepared by Vice President Millard dated May 26, 1954, a copy of which is enclosed. The memorandum concludes with the recommendation that the bank be considered as having corrected the unsafe and unsound practices and violations enumerated in your letter of July 15, 1953.

In view of these favorable developments, it would appear that the objectives of your letter and Order of July 15, 1953 under section 8(a) have been accomplished.

Approved unanimously, with
a copy to the Federal Reserve
Bank of San Francisco.


Secretary