Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, August 6, 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. Vest, General Counsel
Mr. Masters, Assistant Director, Division of Examinations
Mr. Solomon, Assistant General Counsel

Chairman Martin suggested that the Board appoint Mr. Leslie N. Perrin, Consultant and Member of the Executive Committee, General Mills, Inc., Minneapolis, Minnesota, as Chairman of the Board and Federal Reserve Agent at the Federal Reserve Bank of Minneapolis to succeed Mr. Miller, presently Chairman of that Bank, when he resigns to become a member of the Board of Governors. Chairman Martin noted that Mr. Perrin has been serving as Deputy Chairman of the Minneapolis Bank since the beginning of this year. He also indicated that Mr. Miller expected to resign as Chairman effective about the end of next week. Chairman Martin went on to say that, although Mr. Miller had indicated he would favor Mr. Perrin's appointment as his successor, it would be desirable to ascertain in the usual manner through Mr. Miller whether Mr. Perrin would accept the appointment if tendered.

Chairman Martin's suggestion was approved unanimously.

In response to a question from Governor Vardaman, Chairman Martin suggested that appointment of a Class C Director to succeed Mr. Miller and of a Deputy Chairman at the Minneapolis Bank be deferred until after Mr. Miller had assumed his duties as a member of the Board in order that the Board might have the benefit of full discussion of the matter.

Before this meeting there had been sent to the members of the Board a memorandum from Mr. Vest dated August 4, 1954, with respect to a question presented to the Board by the Federal Reserve Bank of New York as to whether certain directors of Investors Management Company, Inc., Elizabeth, New Jersey, an investment advisor to certain open-end investment funds, may lawfully serve at the same time as directors of member banks of the Federal Reserve System. The memorandum pointed out that the question had been considered previously by the Board on February 5, 1954, and that under date of February 9, 1954, the Board advised the Federal Reserve Bank of New York that continuation of the interlocking relationships after consummation of a proposed acquisition of stock of Investors Management Company, Inc. by Hugh W. Long and Company, Inc., the principal underwriter for certain open-end investment funds, "would not be consistent with the purposes and intent of section 32 of the Banking Act of 1933."

At Chairman Martin's request Mr. Vest summarized the facts relating to the interlocking relationships and to steps taken by Investors Management Company, Inc. to assure the independence of the directors

from Long and Company. Mr. Vest stated that the legal question presented was whether any of the three persons who are directors of member banks and are also directors of Investors Management Company, Inc. - George E. Roosevelt, W. Emlen Roosevelt, and Boykin C. Wright - may legally be regarded as "officers, directors, or employees of a company" primarily engaged in business of the type described in section 32. Stated differently, may any of the three persons in question be legally regarded as an officer, director, or employee of Long and Company? As an underwriter, Long and Company is clearly "primarily engaged" in a business of the type described in the statute. On the other hand, Investors Management Company, Inc. is an investment advisory concern, and the Board has held that an investment advisory business as such is not within the statute. The heart of the legal question, Mr. Vest said, was whether the court in a case of this kind would disregard the fact that two corporations are involved and consider them as one because of the stock ownership of one by the other and of the other circumstances present. While the legal question was a difficult and a close one, Mr. Vest expressed the opinion, after citing various cases where questions of this kind were considered, that, on the basis of all the considerations mentioned, the three interlocking directorships in question do not fall within the prohibitions of section 32 of the Banking Act of 1933. This opinion, he said, was shared by the other members of the legal staff who had considered the question.

Governor Robertson stated that he felt Mr. Vest's memorandum presented an excellent summary of the case and of legal opinions which

had been rendered in cases where somewhat similar questions were considered. His view, however, was that the considerations suggesting that the statute is applicable to the interlocking relationships were much stronger than those to the contrary. Governor Robertson said that he would be entirely willing to take the position that the interlocking relationships were prohibited by the law and to have a court test of the case, if necessary. On the other hand, he felt that even if the Board were to hold that the relationships were prohibited by the law, there was no necessity for it to take action to enforce the provisions against the directors concerned.

Governor Mills stated that he would agree with the approach taken by Governor Robertson except that he felt that the Board should proceed to dissolve the interlocking relationships. One of the reasons for his view, he said, was that he felt clarification by the courts of the statute was needed, that the statute might be outmoded, and that a court test would be one way of obtaining a view as to what the intent of the law was. Governor Mills also stated that if the existing law was not clear, a court test would provide a basis upon which the Board might send a recommendation to the Congress for needed changes in the statute.

Chairman Martin said that, as he had indicated at the meeting on February 5, 1954, he did not believe that either the spirit or the letter of section 32 of the Banking Act of 1933 was intended to force the Board to take action in such a case. He did not feel that litigation

as a test of the law was desirable, in that it would cause the directors concerned substantial expense and would not necessarily provide a clear-cut decision as to the legal questions involved. He did not feel the Board should consider the statute as being applicable and he did not wish to take any action which would result in litigation of the case in question.

There followed a long discussion of the question during which Mr. Vest stated that no action on the part of the Board was called for at this time unless it wished to take steps to bring about a change in relationships which were already in existence.

Chairman Martin suggested that, since the situation did not require an immediate decision by the Board, consideration of the matter be deferred until Messrs. Miller and Balderston had assumed their duties as members of the Board, with the thought that after they had had an opportunity to become familiar with the case, it might be desirable, in accordance with the request of attorneys for Investors Management Company, Inc., to invite counsel and representatives of that firm to meet with the Board for further discussion of the matter in the event a majority of the Board was inclined to the decision that the existing interlocking relationships were prohibited by the law.

Chairman Martin's suggestion
was agreed to unanimously.

At this point Mr. Masters withdrew from the meeting and Messrs. Dembitz, Assistant Director of the Division of International Finance,

and Hostrup, Assistant Director of the Division of Examinations, entered the room.

Before this meeting there had been sent to the members of the Board a draft of "Notice of Proposed Rule-Making" to be published in the Federal Register which would modify certain provisions of Regulation K, Banking Corporations Authorized to Do Foreign Banking Business Under the Terms of Section 25 (a) of the Federal Reserve Act. The draft of notice was accompanied by a memorandum from Mr. Solomon dated August 5, 1954, stating the reasons for the proposed changes in two features of Regulation K. The first of these related to the requirement that all obligations of the finance company (other than those maturing within one year and sold to banks) be secured by the deposit of collateral with a trustee; the second requirement that would be modified concerned the provision that the total loans of an Edge corporation to one borrower cannot exceed 10 per cent of the corporation's capital and surplus.

Governor Szymczak reviewed the background of discussions that had taken place over a period of months with representatives of The Chase National Bank of the City of New York concerning the possibility of establishment by that institution of a foreign finance company.

Mr. Solomon explained the reasons for the proposed changes in the Regulation to permit unsecured borrowing by an Edge Act corporation under certain conditions and to relax the limit on loans that might be granted to one borrower in the case of an Edge corporation that does not engage

in the business of receiving deposits. He said that the proposed changes had been thoroughly considered by members of the Board's staff, members of the staff of the Federal Reserve Bank of New York, and representatives of The Chase National Bank and that the proposed amendments to Regulation K had been prepared in a manner which it was felt provided proper safeguards and at the same time would incorporate the substance of the suggestions which representatives of The Chase National Bank felt would be desirable in order to facilitate establishment of a foreign finance company such as was contemplated. Mr. Solomon also said, in response to questions asked during the ensuing discussion, that the matter had been considered in a general way by the special committee now studying foreign banking facilities under the chairmanship of First Vice President Neal of the Federal Reserve Bank of Boston and that that committee had indicated sympathy with the suggestion that something be done to encourage financing in this area. Mr. Solomon made it clear that while the publication of the notice as proposed did not constitute a definite decision by the Board to adopt the amendment, it would be interpreted as indicating that the Board was sympathetic to amending the Regulation along the lines suggested, since otherwise there would be no point in obtaining comments from interested individuals regarding the proposed amendments.

Chairman Martin stated that he favored steps such as The Chase National Bank contemplated taking toward improving the facilities for financing in the foreign area. He agreed with a statement by Governor Mills that the Board would be assuming a responsibility for sponsoring

a new type of export-import financing organization if the proposed changes were adopted and added the comment that it would be necessary for the Board to follow closely the development of such an organization if it were established. He felt, however, that it was desirable to have experimentation in this field and expressed the view that the proposed changes would result in such experimentation under proper safeguards.

Governor Robertson stated that he felt the question was closely related to the entire study of foreign banking facilities being made by the committee under First Vice President Neal but that he would have no objection to publication at this time of the proposed notice in the Federal Register, with the understanding that if on further study of the matter he wished to oppose the amendments to Regulation K, he would be free to do so.

Thereupon, unanimous approval was given to a notice to be published in the Federal Register reading as follows, with the understanding that copies of the notice would be sent to the Presidents of all Federal Reserve Banks with a request that they forward to the Board any comments received and that they let the Board have the benefit of their views as soon as practicable after September 6, 1954:

PROPOSED RULE MAKING

FEDERAL RESERVE SYSTEM

(12 CFR, Part 211)

PART 211- BANKING CORPORATIONS AUTHORIZED TO DO FOREIGN BANKING BUSINESS UNDER SECTION 25(a), FEDERAL RESERVE ACT

(REGULATION K)

NOTICE OF PROPOSED RULE MAKING

Part 211 (Regulation K), issued by the Board of Governors of the Federal Reserve System pursuant to authority cited at 12 CFR 211, relates to banking corporations authorized to do foreign banking business under section 25(a) of the Federal Reserve Act. The regulation contains provisions relating, among other things, to the issuance of debentures, bonds and notes by such a corporation and to limitations on the total liabilities of one borrower from such a corporation.

The Board is considering the sufficiency of the provisions of the regulation concerning these matters, including the desirability of modifying the provisions along the lines indicated below:

1. By adding the following new subsection after subsection (b) of section 211.11, and re-lettering the present subsection (c) to (d):

(c) Notwithstanding subsections (a) and (b) of this section, a corporation may, at its option, comply with the following requirements in lieu of those stated in said subsections (a) and (b):

(1) The corporation shall not engage, either within the United States or abroad, in the business of receiving deposits.

(2) Loans or other credits acquired or guaranteed by the corporation shall have a maturity of not more than 5 years at the time they are so acquired or guaranteed: Provided, however, that this limitation shall not apply (i) to a loan or other credit, or any scheduled installment of a loan or credit, maturing within 10 years, but the aggregate amount of loans or credits or installments of loans or credits excepted under this clause (i) shall not exceed 100 per cent of the corporation's capital and surplus; or (ii) to other loans or credits, or scheduled installments of loans or credits, maturing within 10 years which are secured or covered by unconditional guaranties, commitments or agreements to take over or purchase made by the United States or by any department or establishment of, or corporation wholly owned by, the United States.

(3) The corporation shall carry on its business in accordance with sound financial policies including, among other considerations, a proper regard to the relationship between its assets and the maturities of its obligations, so as to give reasonable assurance that the corporation will be in a position to pay its obligations as they mature.

(4) All obligations of any kind, regardless of maturity or payee, issued by the corporation shall contain a provision, or

shall be issued under an agreement, which shall provide that the corporation will not, during the time any such obligations remain outstanding -

(i) Issue any obligations if immediately thereafter the assets of the corporation, excluding notes, drafts, bills of exchange and other evidences of indebtedness that are in default as to either principal or interest, would be less than 110% of the aggregate principal amount of all obligations of the corporation;

(ii) Mortgage, pledge or otherwise subject any of its assets to any lien or charge to secure any indebtedness for borrowed money or to secure any other obligation of the corporation, except with the consent of all persons holding any of the corporation's obligations which would not have security substantially equivalent in value to that provided by such mortgage, pledge, lien or charge;

(iii) Sell, lease, assign or otherwise dispose of all or substantially all its assets; or

(iv) Declare or pay any dividend (other than a dividend payable in stock of the corporation) or authorize or make any other distribution on any stock of the corporation otherwise than out of the earned surplus of the corporation as determined in accordance with generally accepted accounting principles.

2. By adding the following sentence at the end of subsection (a) of section 211.15:

In the case of a corporation which does not engage, either within the United States or abroad, in the business of receiving deposits, the limitations contained in this section regarding the total liabilities of one borrower (1) shall be increased from 10 per cent to 20 per cent, and (2) shall not apply to the extent that the liabilities are secured or covered by unconditional guaranties, commitments or agreements to take over or to purchase, made by the United States or by any department or establishment of, or corporation wholly owned by, the United States.

This notice is published pursuant to section 4 of the Administrative Procedure Act and section 2 of the Rules of Procedure of the Board of Governors of the Federal Reserve System (12 CFR 262.2). The proposed changes are authorized under the authority cited at 12 CFR 211.

To aid in the consideration of this matter the Board will be glad to receive from interested persons any relevant data,

views or arguments. Although such material may be sent directly to the Board, it is preferable that it be sent to the Federal Reserve Bank of the district which will forward it to the Board to be considered. All such material should be submitted in writing to be received not later than September 6, 1954.

Approved this 6th day of August, 1954.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(Seal)

(signed) S. R. Carpenter
S. R. Carpenter,
Secretary.

Messrs. Dembitz and Hostrup withdrew from the meeting at this point.

Reference was made to a memorandum prepared by Mr. Leonard, Director of the Division of Bank Operations, under date of August 3, 1954 relating to the plans for construction of a new building for the Louisville Branch of the Federal Reserve Bank of St. Louis, copies of which had been sent to the members of the Board before this meeting. At Chairman Martin's suggestion, it was agreed that this matter be referred to Governor Szymczak for further consideration in consultation with the members of the Board available in Washington.

Mr. Leonard, Director of the Division of Bank Operations, and Mr. Daniels, Chief, Reserve Bank Operations Section, Division of Bank Operations, entered the room at this point.

Before this meeting there had been sent to the members of the Board a memorandum from Mr. Leonard dated August 4, 1954 relating to preliminary plans for additions and alterations to the Salt Lake City Branch of the Federal Reserve Bank of San Francisco, together with a draft of

letter to Mr. Earhart, President of that Bank. The memorandum and letter raised the question whether the additions and alterations to the present branch building offered a more satisfactory expansion program than would be offered under an alternative of selling the present building, acquiring another site, and constructing a new building.

Following discussion of Mr. Leonard's memorandum, during which changes in the draft letter were suggested, unanimous approval was given to a letter to Mr. Earhart reading as follows:

The Board has considered the building program for enlarging the facilities of the Salt Lake City Branch, as discussed in your letter of June 11, which referred to two possibilities. One is a program of additions and alterations to the present building, at an estimated cost of approximately $1,520,000; the other is the sale of the present building, acquisition of another site, and construction of a new building. This would involve substantially greater cost of "building proper" than the approximately $527,000 estimated for the additions to the present building.

As you were informed, the matter was being held in abeyance pending receipt of current information regarding other building programs which might have a bearing on the amount available for allocation to the Salt Lake City program. In light of such information, the Board is prepared to earmark $1,200,000 for the cost of "building proper" for a new building for the Salt Lake City Branch, should the Directors decide upon such a program and a suitable sale of the present property be arranged.

It is recognized that arguments can be advanced for either course and that the decision is one essentially of sound business judgment in the light of all of the circumstances, including local conditions and current needs as well as long-run considerations. It is the view of the Board, however, that long-range considerations should not be minimized, and that in considering the expenditure of a substantial amount under either program it is important to consider what the Bank would have for the money twenty or twenty-five years hence.

Costs of $1,520,000 seem high in relation to what would be received under the alteration program. In this connection, the Federal Reserve Bank of Dallas has received bids for the

construction of a new building for the San Antonio Branch. That building is to be a two-basement and three-story building, containing approximately 88,000 gross square feet (substantially larger than the Salt Lake City building would be after the proposed additions), and the bids indicate a total cost of approximately $2,085,000, of which approximately $1,290,000 is estimated as cost of "building proper."

As stated above, the Board is prepared to earmark $1,200,000 of the authorization for "building proper" costs for a new building for the Salt Lake City Branch, which should permit the construction of a suitable building for that Branch. The availability of this allocation clarifies a major uncertainty referred to in your letter of June 11. It will be appreciated, therefore, if the Directors of the Bank, in consultation with the Directors of the Branch, will review the situation in the light of this letter. The Board will await advice as to their thoughts concerning the most desirable program.

Messrs. Solomon, Leonard, and Daniels withdrew from the meeting at this point.

Governor Robertson referred to the action of the Board on July 8, 1954, in declining to approve a request of Grosse Pointe Bank, Grosse Pointe, Michigan, for permission to establish a branch at 630 St. Clair Avenue in Grosse Pointe. He stated that the Federal Reserve Bank of Chicago, at the request of its member bank, had submitted the matter for reconsideration by the Board with a favorable recommendation, on the basis of a further review of the original application, that permission be granted to establish the branch, and that the Division of Examinations had again recommended that the Board grant the necessary permission. However, it was Governor Robertson's view that nothing submitted by the Federal Reserve Bank of Chicago in support of this request for reconsideration would warrant a reversal of the position taken by the Board on July 8, namely, "that the soundness of establishing

three offices in such close proximity is questionable, and it (the Board) is not inclined to approve the bank's request at this time." Governor Robertson went on to say that he did not wish to have the Board act on the matter at this meeting since the file had not yet circulated among the other members of the Board but that it would be his recommendation that the Board adhere to the position taken July 8 and that the bank be informed that, after the branch now being established by the bank .8 of a mile from the proposed location had been in operation for a reasonable period of time, the Board would consider a new application. He added the comment that the file would be circulated to the other members of the Board with a memorandum from him recommending the foregoing action.

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, St. Louis, Minneapolis, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Banks of Boston and St. Louis on August 2, by the Federal Reserve Bank of San Francisco on August 4, and by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Minneapolis, and Dallas on August 5, 1954, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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 August 5, 1954, were approved unanimously.

Memorandum dated July 30, 1954, from Mr. Bethea, Director, Division of Administrative Services, recommending that the resignation of Esther R. Myers, Cafeteria Helper in that Division, be accepted effective August 6, 1954.

Approved unanimously.

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

> In accordance with the request contained in your letter of July 27, 1954, the Board approves the appointment of Harold L. Saf, at present an assistant examiner, as an examiner for the Federal Reserve Bank of New York.
>
> Please advise as to the date upon which the appointment is made effective and as to salary rate.

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 July 30, 1954, the Board approves the designation of the following named employees of the Federal Reserve Bank of Atlanta as special assistant examiners for the purpose of participating in the examination of State member banks:
>
> HEAD OFFICE
>
Robert Callaway	Norman W. Miles	Walter S. Hall
Harry F. Wilson	James Edmondson	J. Thomas Chaney
William E. Briscoe	J. Frank Fortune	Ellis Clark
	Gene J. Click	
>
> BIRMINGHAM
>
V. R. Wilson	C. M. Saxon	R. M. Chaney

NASHVILLE

William R. Beal	George C. Williams	H. Allen Justice, Jr.
Robert D. Miller	W. H. Hutchison, Jr.	

NEW ORLEANS

Walter J. Manning	Leroy E. Decoteau	Milton P. Rieder
Merwyn B. Esler	Joseph Reynolds LeDew	

Approved unanimously.

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

In accordance with the request contained in your letter of July 23, 1954, the authorizations heretofore given your bank to designate the following employees as special assistant examiners are hereby cancelled:

R. L. Albertson	G. R. Kelly	P. R. Smith
S. L. Brown	M. C. Petersen	G. Virta
W. A. Hammond	G. H. Sherman	

The Board approves the designation of the following as special assistant examiners for the Federal Reserve Bank of San Francisco:

R. L. Ferreira	G. C. Harwood	G. H. Sherman
W. A. Hammond	R. Retallick	G. Virta

The Board approves the designation of the following employees as special assistant examiners for the specific purpose of rendering assistance in the examination of State member banks only:

S. L. Brown	R. Maurer, Jr.	P. R. Smith
G. R. Kelly	M. C. Petersen	

The Board also approves the designation of the following named employees of your bank as special assistant examiners for the purpose of participating in the examination of all State member banks except the bank listed immediately above their names:

American Trust Company, San Francisco, California.

D. B. Drinkall
A. Pascual

California Bank, Los Angeles, California.

R. L. Albertson

Appropriate notations have been made in the Board's records of the names to be deleted from the list of special assistant examiners.

Approved unanimously.

Letter to the Fidelity National Bank of Twin Falls, Twin Falls, Idaho, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee or 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 of Idaho, subject to the limitation that these powers shall be exercised only with respect to the management and operation of farm properties. The exercise of these powers shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers which the Fidelity National Bank of Twin Falls is now authorized to exercise will be forwarded to you in due course.

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

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 July 9, 1954, enclosing photostatic copies of an application to convert the Bank of Dunedin, Florida, into a national banking association and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application made by an examiner for the Federal Reserve Bank of Atlanta indicates generally favorable findings with

respect to the factors usually considered in connection with such proposals. Accordingly, 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.

Secretary