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Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, October 13, 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. Miller
 Mr. Balderston

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Thurston, Assistant to the Board
 Mr. Sprecher, Assistant Director, Division of Personnel Administration

The following matters, which had been circulated among the members of the Board, were presented for consideration and action taken as indicated:

Memorandum dated October 6, 1954, from Mr. Sloan, Director, Division of Examinations, recommending that the Board reimburse Mr. Lang, Chief Federal Reserve Examiner, for the registration fee of \$35 incident to his proposed attendance at the annual convention of the National Association of Bank Auditors and Comptrollers to be held in San Francisco, California, October 18-21, 1954.

Approved unanimously.

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

In accordance with the request contained in your letter of October 1, 1954, the Board of Governors approves the payment of salary to Mr. Franklin P. Hall, Industrial Economist, for a period of six months from October 1, 1954, at the rate of \$6,500 per annum, which is \$650 below the minimum established for the grade in which his position is classified.

Approved unanimously.

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Letter to Mr. Stetzelberger, Vice President, Federal Reserve Bank of Cleveland, reading as follows:

In accordance with the request contained in your letter of September 30, the Board approves the designation of Edward A. Seavert and Joseph E. Tokar as special assistant examiners for the Federal Reserve Bank of Cleveland for the specific purpose of rendering assistance in the examinations of The Cleveland Trust Company, Cleveland, Ohio.

The authorizations heretofore given to your bank to designate these employees as special assistant examiners are hereby cancelled.

Approved unanimously.

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

In accordance with the request contained in your letter of October 1, 1954, the Board approves the designation of the following named employees of your bank as special assistant examiners for the specific purpose of rendering assistance in the examinations of Mercantile Trust Company, St. Louis, Missouri:

Orvil Clements
Gordon F. Jaques
Richard M. Oldham

Raymond H. Jung
Laudie Ptacnik

Approved unanimously.

There were presented memoranda from appropriate individuals concerned recommending personnel actions with respect to members of the Board's staff as follows:

Appointment, effective upon the
date of assuming duties

<u>Name and title</u>	<u>Division</u>	<u>Type of appointment</u>	<u>Basic annual salary</u>
Brenton C. Leavitt, Federal Reserve Examiner, with the title of Review Examiner <u>1/</u>	Examinations	Temporary indefinite	\$8,760

1/ With the understanding that the Board would reimburse Mr. Leavitt for his transportation from Kansas City, Missouri, to Washington, D. C., and for the expense of moving his furniture and household goods from Kansas City to Washington. Official headquarters for Mr. Leavitt would be Washington, D. C.

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Salary increases, effective October 24, 1954

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Legal Division</u>		
S. E. Entriken, Legal Assistant		\$5,370	\$5,560
	<u>Research and Statistics</u>		
Adele H. Bishop, Secretary		3,785	3,910
	<u>International Finance</u>		
Pearl G. Farrington, Clerk		3,660	3,785
	<u>Examinations</u>		
Francis D. Dargo, Assistant Federal Reserve Examiner		3,410	3,535
Ruth Jean Deck, Clerk-Typist		3,110	3,190
W. M. Williams, Assistant Federal Reserve Examiner		4,580	4,705
	<u>Bank Operations</u>		
Oliver H. Jones, Jr., Technical Assistant		5,940	6,140
	<u>Administrative Services</u>		
Louise L. Hiller, Operator (Key Punch)		3,350	3,430
Ruth M. Brown, Charwoman		2,420	2,490
Edith C. Hartzell, Charwoman		2,420	2,490
Garnet M. Lawrence, Telephone Operator		2,950	3,030

Approved unanimously.

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Pursuant to the understanding at the meeting on October 6, 1954, Mr. Sprecher reviewed the Board's personnel program, with emphasis on salary administration procedures.

Mr. Sprecher then withdrew from the meeting and Messrs. Hackley, and Hexter, Assistant General Counsel, entered the room, along with Messrs. Hostrup, Assistant Director, and McClelland, Review Examiner, Division of Examinations.

Consideration was given to the question whether the recent purchase by Trust Company of Georgia Associates, of Atlanta, Georgia, (a wholly-owned subsidiary of Trust Company of Georgia, a State member bank also of Atlanta) of a majority of the stock of DeKalb National Bank, Brookhaven, Georgia, resulted in a violation on the part of the member bank of the provisions of section 9 of the Federal Reserve Act, which make applicable to State member banks the provisions of section 5136 of the United States Revised Statutes prohibiting national banks from purchasing corporate stocks. There had been exchanges of correspondence on the matter between the Board, the Federal Reserve Bank of Atlanta, and the Trust Company of Georgia; Mr. John A. Sibley, Chairman of the Board of the Trust Company, discussed the matter personally with Chairman Martin and Governor Robertson; and Mr. Sibley, along with Mr. Robert Troutman and other representatives of Trust Company of Georgia Associates, met with the members of the Board (except Governor Mills, who was out of the city) for discussion on October 4, 1954. Memoranda submitted to the Board by the staff included:

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1. A memorandum dated July 1, 1954, from Mr. Hackley which reviewed the history of the case and the legal considerations, and expressed the view that if the matter should reach the point of litigation, a stronger case could be made for the position that the transaction did not violate the law than for the opposite position.
2. A memorandum from Mr. Vest dated July 1, 1954, in which it was stated that although the question was an unusually close and difficult one and one in which the position of the courts could not be predicted with any confidence, Messrs. Vest and Hexter felt that the stronger arguments were on the side of the position that the transaction was not in accordance with the statutes, whereas Mr. Solomon, Assistant General Counsel, was in agreement with Mr. Hackley. The memorandum set forth the principal considerations suggesting to Mr. Vest that the transaction was not in accordance with the statutes.
3. A memorandum from Mr. Vest dated October 8, 1954, which reviewed the principal contentions of Messrs. Sibley and Troutman, as stated during their meeting with the Board on October 4. This memorandum also stated that Messrs. Vest, Solomon, Hackley, and Hexter continued to hold their previously expressed views on the matter, and suggested four alternatives which appeared to be open to the Board.

At the request of the Board, Messrs. Vest, Hexter, and Hackley reviewed the facts of the case and stated their personal views in some detail, their comments being based generally on the memoranda referred to above. These statements were followed by a series of questions and comments by members of the Board relating to the factual situation and the pertinent statutory provisions. During the discussion the statement was made that the representatives of Trust Company of Georgia Associates had made it clear that they planned to purchase the stock of additional banks.

Governor Robertson requested that his views with respect to this matter be recorded as follows:

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When Congress in 1933 prohibited the purchase of corporate stock by member banks, its purpose undoubtedly was to protect the safety of bank deposits. Whether Congress' decision was right or wrong is not our concern; the point is that Congress believed and intended that the assets standing behind bank deposits should not include corporate stock.

If Trust Company of Georgia were to become insolvent, its depositors would be entitled to look to all assets of the bank, including the stock of Associates. The value of Associates' stock would depend on the assets owned by that company. As a result of the purchase of the stock of DeKalb National Bank, over \$150,000 of the assets standing behind deposits in Trust Company of Georgia were changed from cash to corporate stock—exactly the result that Congress opposed and intended to prevent in the Banking Act of 1933.

No one denies that this stock was acquired because Trust Company of Georgia wished to add the DeKalb National Bank to the group of affiliated banks which it controls. It accomplished this objective by having its wholly-owned affiliate make the purchase. In 1933 Congress expressed a strong policy against stock purchases by banks, and permitted retention of stock already held as a concession to already vested interests, i.e., to the status quo. It seems to me that we should not permit a limited and reluctant exception to be utilized, through additional acquisitions, to defeat Congress' clear purpose.

Chairman Martin expressed the opinion that in approaching matters such as this one, the Board should think in terms of what the Congress, by statute, was trying to prevent and should endeavor to assist member banks in doing what was consistent with the public interest, provided such actions did not conflict with the statutes. If the law was specific the Board, of course, should require that it be followed. Chairman Martin pointed out that in this case the member bank had an affiliate whose background and history indicated clearly that it was prepared to submit to regulation by the Board, and he said that on the basis of the

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presentation made by Messrs. Sibley and Troutman he could not conceive of the affiliate taking any action for the purpose of avoiding regulation that might be in the public interest. He also noted that a device appeared to be available (trusteeing stock of the affiliate for the benefit of stockholders of the trust company) by which the Trust Company could carry out such transactions without any question of legality. However, as Mr. Sibley pointed out, it seemed to him that such a method would serve to benefit the stockholders of the member bank as against its depositors. Summarizing, Chairman Martin said that the Board in fulfilling its regulatory responsibilities must make some distinctions on the basis of sound banking. If there was a difference of opinion as to the applicability of the pertinent statutes, he would weight his judgment on the side of giving the benefit of the doubt to the member bank where it did not affect the public interest adversely.

Governor Vardaman expressed himself as being in agreement with Chairman Martin's general philosophy regarding the approach that the Board should take in discharging its supervisory responsibilities. However, in this case certain factors were present which prevented him from concurring in the Chairman's conclusions. Referring to the statutory prohibition against the acquisition of corporate stocks by member banks, he stated that he failed to see why a transaction not permissible for a member bank should be countenanced when carried out through the device of a wholly-owned subsidiary. He thought it was not reasonable to suppose that any action by Trust Company of Georgia Associates was not in fact

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initiated, approved, and perhaps actually performed by the Trust Company of Georgia. Governor Vardaman also disagreed with the premise that the interests of depositors, or of stockholders, of the Trust Company were best served by this sort of procedure. He pointed out that the stock of the subsidiary was carried on the books of the Trust Company at a nominal value and felt that no depositor or stockholder of the Trust Company was legally entitled to have an accounting of the subsidiary's operations. It was his opinion that if any person deposited funds in the Trust Company or purchased its stock on the theory that he was obtaining an additional asset by virtue of the Trust Company's ownership of the subsidiary, that person was making a mistake or at least did not know whether he had additional assets or not. Governor Vardaman said that he feared the potentialities involved in permitting transactions of the kind under consideration and, after inquiring where the Board would stand if it did not hold the stock purchase transaction unlawful, suggested that a veritable "Pandora's box" might be opened up by a failure of the Board to so rule.

Governor Mills said he agreed that the practice employed by the Trust Company of Georgia and Trust Company of Georgia Associates might not be completely in accord with the intent of the Congress. However, after listening to the discussion at this meeting and after having reviewed all of the information submitted, it appeared to him that the statutes as presently worded allowed Trust Company of Georgia to have a continuing privilege, and that unless and until the Congress should revoke that privilege the Trust Company apparently was entitled to exercise it. He

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thought that the Board's responsibility was to enforce the statutes as they stand on the books; if the Board went beyond that point, it was entering a field of interpretation and regulation not contemplated by the statutes. If in any case the Board should have substantial doubts as to the intent of the statutes, he felt that its recourse was to go to the Congress for clarification.

Governor Szymczak requested that his views be recorded as follows:

I agree with the substance of the reasons given by Governor Robertson, although I am fully aware of the fact that the subject could be argued both ways. It, therefore, seems to me that it is in the public interest to hold that the transaction was unlawful and if the bank does not rid itself of the national bank stock within a reasonable time we bring proceedings to expel the Trust Company of Georgia from membership in the Federal Reserve System.

No doubt, the Trust Company would take this matter to court. A decision by the court, one way or another, would clarify the situation. In other words, if the court holds that the transaction was lawful, we can then bring this matter to the attention of Congress in our Annual Report with a recommendation of legislation, or if the court holds that the transaction was unlawful, that disposes of the legal question.

Governor Balderston said that to him the matter turned on the distinction between enforcement of the statutes and regulation. After stating that in his judgment the public interest would not be affected adversely should the Board refrain from holding the stock purchase transaction unlawful, Governor Balderston said that he had arrived at the same conclusion as Governor Mills.

Governor Miller stated that he also was in agreement with the position stated by Governor Mills.

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It was then suggested that a vote be taken on the first alternative stated in Mr. Vest's memorandum of October 8, 1954, which was that the Board raise no further question regarding the position of Trust Company of Georgia.

The vote was taken and this position was adopted by the Board, Chairman Martin and Governors Mills, Miller, and Balderston voting "aye" and Governors Szymczak, Vardaman, and Robertson voting "no", each for the reasons previously stated.

Secretary's Note: The letter sent to Mr. Bryan, President of the Federal Reserve Bank of Atlanta, in accordance with this action was as follows:

This refers to the Board's letter of July 7, 1954, and other recent correspondence regarding the question whether the acquisition of stock of the DeKalb National Bank, Brookhaven, Georgia, by Trust Company of Georgia Associates involved a violation on the part of Trust Company of Georgia of the provisions of section 9 of the Federal Reserve Act and section 5136 of the Revised Statutes. This matter was discussed informally with members of the Board by representatives of Trust Company of Georgia Associates on October 4, 1954.

It is requested that you advise Trust Company of Georgia that after further consideration of this matter in the light of all the circumstances the Board has decided that it will raise no further question regarding the purchase of the stock of the DeKalb National Bank by Trust Company of Georgia Associates.

Governor Robertson made the following further comment:

The comments which I made during the discussion of this matter relate to the merits of the question. In view of the action just taken, the Board should give consideration to whether it should communicate in any way with Fidelity Union Trust Company of Newark, New Jersey, which was prohibited by

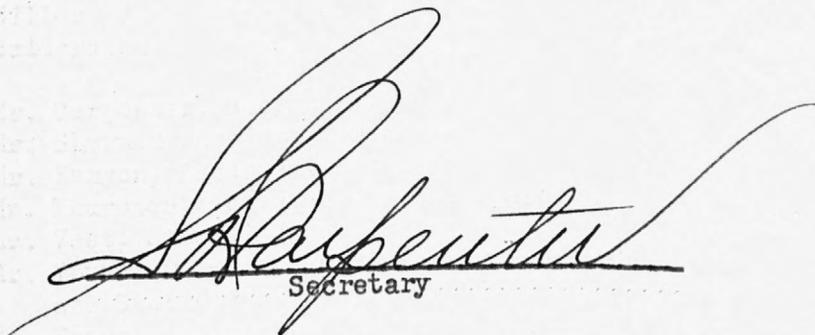
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the Board less than a year ago from making an acquisition of national bank stock through a subsidiary in circumstances which I doubt can be distinguished from those in the Trust Company of Georgia case.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 12, 1954, were approved unanimously.

The meeting then adjourned.


Secretary

Miss Sutherland and
work of the Research Library
ing along with Messrs. [unclear]
The following [unclear]
of the Board, were presented
Items:
Memorandum dated [unclear]
Division of Administrative [unclear]
[unclear] of [unclear]