

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, October 26, 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. Balderston  
 Mr. Carpenter, Secretary  
 Mr. Sherman, Assistant Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Thurston, Assistant to the Board  
 Mr. Vest, General Counsel  
 Mr. Sloan, Director, Division of Examinations  
 Mr. Marget, Director, Division of International Finance  
 Mr. Solomon, Assistant General Counsel  
 Mr. Hackley, Assistant General Counsel  
 Mr. Goodman, Assistant Director, Division of Examinations  
 Mr. Dembitz, Assistant Director, Division of International Finance

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

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

In accordance with the request contained in your letter of October 7, 1954, the Board approves the designation of John F. Kilderry as a special assistant examiner for the Federal Reserve Bank of Boston for the purpose of participating in the examinations of Depositors Trust Company, Augusta, Maine; The Merrill Trust Company, Bangor, Maine; The Connecticut Bank and Trust Company, Hartford, Connecticut; and Rhode Island Hospital Trust Company, Providence, Rhode Island.

The original appointment of Mr. Kilderry as an assistant examiner for the Federal Reserve Bank of Boston is hereby cancelled.

Approved unanimously.

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

In accordance with the request contained in your letter of October 18, 1954, the Board approves the appointment of Paul M. Brady as an assistant 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.

The Board approves effective October 14, 1954, the designation of Harold L. Saf as a special examiner for the Federal Reserve Bank of New York. The original appointment of Mr. Saf as an examiner has been terminated as of October 14, 1954.

Approved unanimously.

Letter to the Board of Directors, Fair Lawn-Radburn Trust Company, Fair Lawn, New Jersey, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch by Fair Lawn-Radburn Trust Company, at the corner of Fair Lawn Avenue and the Erie Railroad right of way, Radburn section, Borough of Fair Lawn, New Jersey, provided the branch is established within six months from the date of this letter.

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

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

Reference is made to your letter of October 13, 1954, enclosing a certified copy of a resolution adopted by the board of directors of the Dime Trust and Savings Bank, Fort Wayne, Indiana, signifying its intention to withdraw from membership in the Federal Reserve System, and an accompanying letter signed by Mr. Harry G. Hogan, President of the bank. The resolution and the letter request a waiver of the six months' notice of such withdrawal. It is understood that the bank has applied to the Federal

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Deposit Insurance Corporation for continuance of insurance of its deposits.

In accordance with the bank's request, the Board of Governors waives the requirement of six months' notice of withdrawal. Accordingly, upon surrender of the Federal Reserve Bank stock issued to the bank, you are authorized to cancel such stock and make appropriate refund thereon. Under the provisions of section 10(c) of Regulation H, as amended effective September 1, 1952, the bank may accomplish termination of its membership at any time within eight months after notice of intention to withdraw was first given. Please advise when cancellation is effected and refund is made.

Your attention is called to the fact that the resolution of the board of directors provides that two officers of the bank shall file written notice of the bank's desire and intention to withdraw from membership. However, the letters from the member bank which transmitted the resolution and stated why the bank desires to withdraw were signed by only one officer and, therefore, may not represent effective corporate action. It is requested that, before the bank is permitted to withdraw from membership, appropriate steps will be taken to correct this oversight on the bank's part.

The certificate of membership issued to the bank should be obtained, if possible, and forwarded to the Board. The State banking authorities should be advised of the bank's proposed withdrawal from membership and the date such withdrawal becomes effective.

Approved unanimously.

Telegram to Mr. Perrin, Chairman, Federal Reserve Bank of Minneapolis, authorizing, subject to the following condition, the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to First Bank Stock Corporation, Minneapolis, Minnesota, entitling such organization to vote the stock which it owns or controls of the First Edina National Bank, Edina, Minnesota, at all meetings of shareholders of such bank:

Prior to issuance of general voting permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (F.R.L.S. #7190).

Approved unanimously.

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Letter to the Board of Directors, Garfield Commercial & Savings Bank, East Los Angeles, California, approving, subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H and the following special condition, the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of San Francisco, effective if and when the bank is authorized to commence business by the appropriate State authorities:

At the time of admission to membership, such bank shall have a paid-up and unimpaired capital stock of not less than \$230,000 and other capital funds of not less than \$115,000.

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

Reference was made to a memorandum from Mr. Solomon dated October 15, 1954, relating to the request of The Chase Bank, New York, New York, an Edge corporation and a wholly-owned subsidiary of The Chase National Bank of the City of New York, for permission to invest not more than \$1,200,000 (i.e., 10 per cent of its capital and surplus) in stock of a new corporation to be organized under Canadian law. The Canadian corporation (which would have two types of common stock and one class of preferred stock) would engage in the promotion, development, and expansion of industries in various foreign countries by providing technical assistance and advice, by investing its own funds in loans to, or equities of, foreign companies, and by interesting other large investors (particularly its own stockholders) to join with it on a joint venture basis in making such investments. Its operations would not be limited to Canada but would be carried on at any place in the world which might seem appropriate except in the United States where the operations of an Edge corporation and its subsidiaries are limited.

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The Federal Reserve Bank of New York had recommended approval of the request, and Mr. Solomon's memorandum stated that the Board's staff also felt that it would be appropriate to grant the request but believed that it would be desirable to obtain from The Chase Bank in advance certain specific assurances as to the operations of the proposed corporation, as follows:

1. That the Canadian corporation would not in any way engage or participate in the underwriting, selling, or distributing of securities in the United States. (This would mean that it would not do so directly, and also would not do so indirectly through an agency or on a commission or consignment basis, by underwriting even on a stand-by basis securities being sold or distributed in the United States or otherwise.)
2. That the Canadian corporation would not in any way engage or participate in the underwriting (except on a mere stand-by basis), selling, or distributing of securities, directly or indirectly, in any other place without first obtaining the consent of the Board of Governors.
3. That the Canadian corporation would not invest in any corporation doing business in the United States.
4. That the Canadian corporation would not receive deposits and would not invest in any corporation engaged in the business of receiving deposits.
5. That the name of the Canadian corporation would not be similar to that of The Chase Bank or The Chase National Bank of the City of New York.

To the memorandum were attached copies of correspondence concerning the matter received from The Chase Bank and the Federal Reserve Bank of New York. Also attached were a memorandum from the New York Bank's legal staff and a copy of the form of application for incorporation prescribed by the Companies Act of the Dominion of Canada.

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Mr. Solomon's memorandum suggested that the Board might wish to advise The Chase Bank, either by letter or by informal advice through a member of the staff, that on the basis of the facts presented it would be willing to grant the request, subject to assurances such as those mentioned above and with the understanding that further requirements might be necessary in the light of later developments such as the forthcoming report of the Special Committee on Foreign Operations of American Banks.

Following a background statement by Mr. Solomon, there was a full discussion of the application during which the following principal questions were raised:

1. Could limitations upon the operations of the corporation, as set forth in Mr. Solomon's memorandum, be made a part of the charter provisions of the corporation? Could the charter also provide that the Canadian corporation would refrain from making such investments in other companies, and from permitting such investments by its subsidiaries or affiliates, as would have the effect of circumventing any of these prohibitions?
2. Would The Chase Bank give assurances that it would retain majority control in order that any subsequent amendments to the charter of the corporation would not affect any such charter limitations upon the operations of the corporation?
3. What would the proposed Canadian corporation be able to do that The Chase Bank could not do directly?
4. Why was the charter for the corporation being sought in Canada instead of under the laws of some State of the United States or some other foreign country?
5. Were there tax considerations involved in the proposal for a Canadian corporation and, if so, what were they?

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6. To what extent, if at all, was it contemplated that Canadian capital would be invested in the stock of the corporation, either Class A or Class B common, or preferred?

From the discussion it appeared that the members of the Board were in sympathy with the fundamental principle underlying The Chase Bank's proposal and with the general objectives of the plan. However, it was the view of the Board that no commitment should be made pending exploration of the several questions raised at this meeting. It was suggested, therefore, that the Legal Division discuss these points informally with representatives of The Chase Bank with a view to further consideration of the matter by the Board in the light of the information developed through such discussion.

This suggested procedure was approved unanimously, with the understanding that the Legal Division would make clear to the representatives of The Chase Bank that although the Board was sufficiently sympathetic to the proposal to request the additional information, there was no commitment on the part of the Board to approve the application.

Messrs. Marget, Solomon, Goodman, and Dembitz then withdrew and Messrs. Thomas, Economic Adviser to the Board, Leonard, Director, Division of Bank Operations, and Young, Director, Youngdahl, Assistant Director, and Koch, Chief, Banking Section, Division of Research and Statistics, entered the room.

Reference was made to a memorandum from Governor Mills dated October 11, 1954, transmitting to the other members of the Board for consideration two revised and alternative versions of a foreword of general

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principles to a proposed revision of Regulation A, Discounts for and Advances to Member Banks by Federal Reserve Banks. The first draft, known as draft A, followed generally the form previously considered and numbered the principles separately, while the second draft, known as draft B, treated the principles more briefly and in essay form. Both versions attempted to temper the restrictive tone that appeared to have been conveyed by the earlier form of the foreword, according to statements made by several of the Federal Reserve Bank Presidents and by the Federal Advisory Council. To Governor Mills' memorandum there was also attached a revised draft of the body of the regulation which incorporated certain minor suggestions that had been made. The memorandum further called to the Board's attention three questions about which there was still difference of opinion, as follows:

1. Should the principle that prohibits borrowing when the member bank's main purpose in borrowing is to profit from rate differentials or to obtain tax advantages be omitted?

2. Should the principle dealing with lending to other than member banks in unusual and exigent circumstances be deleted?

3. Should the statement in Section 2 of the regulation proper dealing with advances to member banks on Government securities retain in the text the authority to make advances for periods not exceeding 15 days and refer only in a footnote to the authority to make such advances not exceeding 90 days?

In addition, Governor Vardaman had sent to the other members of the Board under date of October 14, 1954, a draft of a proposed rewrite of the foreword in essay form, and Governor Mills had circulated under date



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of October 20, 1954, an alternative draft of the foreword in essay form, known as draft C.

Following a statement by Governor Mills concerning the material which had been sent to the members of the Board, Chairman Martin referred to the discussion of the proposal to revise Regulation A at the last joint meeting of the Board with the Federal Advisory Council. He noted that another meeting of the Board with the Council was scheduled for next month and expressed the view that it would be desirable to discuss the matter with the Council again at that time in order to reach a better understanding, if possible, before the Board took formal action to revise the regulation. The other members of the Board indicated that they were in agreement with Chairman Martin's position.

Governor Vardaman stated that the principal purpose which he had in mind in submitting his revision of the foreword was to emphasize that he favored the essay form. He felt that a listing of general principles probably would be interpreted as indicating an intent to limit and restrict discounting by member banks, and said that it would be his preference to have a rather broad statement of policy and effect any corrections in individual cases through consultation with specific Federal Reserve Banks. He added that draft C, as submitted by Governor Mills, was satisfactory to him.

In a further discussion Chairman Martin and Governors Szymczak and Mills also expressed a preference for draft C. Governor Balderston stated that he had no strong feeling on the matter, and Governor Robertson said

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that although he would prefer draft A because he thought it was more specific and clear, he would have no objection to the use of draft C. He suggested, however, that in transmitting the revised regulation, including the foreword, to the Federal Advisory Council there be attached a prefatory note, reading somewhat as follows, which would also be published in the Federal Register when the revision of Regulation A was in a form approved by the Board for such publication:

While the revision of Regulation A would make certain changes in the language of the Regulation itself, the most important change would be the inclusion of a Foreword of General Principles. This Foreword is designed merely to restate and clarify certain guiding principles which are observed by the Federal Reserve Banks in making advances and discounts in accordance with applicable provisions of the Federal Reserve Act and of Regulation A; it is not intended to restrict or restrain access by member banks to the credit facilities of the Federal Reserve Banks.

The other members of the Board indicated that they favored the prefatory note suggested by Governor Robertson.

With regard to the three questions raised in Governor Mills' memorandum, it was the view of the majority of the Board (1) that the principle prohibiting borrowing when the member bank's main purpose is to profit from rate differentials or to obtain tax advantages should be retained in a form which would indicate the view of the Board that borrowing for these purposes was undesirable; (2) that the principle in the foreword dealing with lending to other than member banks in unusual and exigent circumstances should be deleted, and (3) that the statement in the regulation dealing with advances to member banks on Government securities should retain in the

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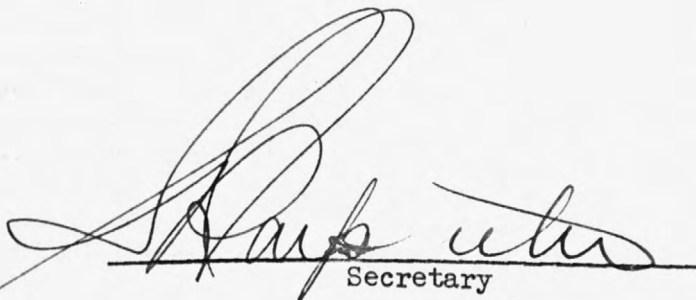
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text the authority to make advances for periods not exceeding 15 days and refer only in a footnote to the authority to make such advances not exceeding 90 days.

At the conclusion of the discussion, it was understood that the draft of foreword to Regulation A known as draft C would be revised to incorporate certain changes suggested at this meeting, and that when approved by the Board the revised foreword and the regulation proper would be sent to the Federal Reserve Banks, and also to the members of the Federal Advisory Council for discussion at the next meeting of the Board with the Council.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 25, 1954, were approved unanimously.

The meeting then adjourned.



Secretary