

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, November 4, 1954. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
 Mr. Szymczak
 Mr. Mills
 Mr. Robertson
 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 27, 1954, from Mr. Marget, Director, Division of International Finance, stating that Catherine B. Davian, Clerk-Stenographer in that Division, who was appointed to that position effective October 12, 1954, had reported an outside business activity as a notary public for Fairfax County, Virginia. The memorandum recommended that the Board grant Mrs. Davian permission to carry on this activity.

Approved unanimously.

Memorandum from Mr. Marget dated October 25, 1954, stating that the Council for Economic and Industry Research, Inc., a non-profit organization currently carrying on a program of research under contract for the United States Air Force, had asked Mr. Dembitz, Assistant Director of the Division of International Finance, to serve as a member of the Research Advisory Board to advise the Council in connection with the research program; that regular meetings of the Advisory Board would be held at quarterly intervals, with the possibility of additional special meetings; that meetings probably would be held on Saturdays; that members of the Research Advisory Board were compensated at the rate of \$50 per day; but that if the Board should see objection to his

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receiving pay for the work, Mr. Dembitz would nevertheless like to obtain permission to serve on the Research Advisory Board in view of the importance which it was understood the Air Force attached to the research project. When the memorandum was in circulation to the members of the Board, Governor Vardaman had indicated that he was opposed to granting the requested permission.

Following a discussion during which members of the Board questioned the advisability of having a member of the Board's staff serve in a private capacity, especially on a compensated basis, as an adviser to an organization performing services under contract for another branch of the Government, it was agreed that Mr. Dembitz should not accept the offer to serve as a member of the Research Advisory Board and Governor Szymczak was requested to convey the Board's views to Mr. Marget and Mr. Dembitz.

Memorandum dated October 27, 1954, from Mr. Thomas, Economic Adviser to the Board, requesting permission to accept an invitation from Mr. Leach, President of the Federal Reserve Bank of Richmond, to participate in the central banking seminar of that Bank to be held December 8-11, 1954.

Approved unanimously.

Letters to the Presidents of all Federal Reserve Banks reading as follows:

There have been forwarded to you today under separate cover copies of form F. R. 107 to be used by State member banks in submitting their reports of earnings and dividends for the calendar year 1954. The form is the same as the one used in submitting reports for the first half of 1954.

There have been forwarded to you today under separate cover the indicated number of copies of the following forms,

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a copy of each of which is attached, for use of State member banks and their affiliates in submitting reports as of the next call date:

Number of
copies

- Form F. R. 105 (Call No. 134), Report of condition of State member banks.
- Form F. R. 105e (Revised May 1948), Publisher's copy of report of condition of State member banks.
- Form F. R. 105e-1 (Revised May 1948), Publisher's copy of report of condition of State member banks.
- Form F. R. 105e-2 (December 1953), Publisher's copy supplement.
- Form F. R. 220 (Revised March 1952), Report of affiliate or holding company affiliate.
- Form F. R. 220a (Revised March 1952), Publisher's copy of report of affiliate or holding company affiliate.

All of the forms are the same as those used on October 7, 1954.

Approved unanimously, with the understanding that the letters would be sent when the forms were printed.

Letter to Mr. Powell, President, Federal Reserve Bank of Minneapolis, reading as follows:

Your letter of October 27 refers to the proposal to install facilities for additional electrical service necessary for the construction of the proposed addition to the head office building, which facilities would subsequently become part of the system serving the addition. It is noted that the cost of the work is estimated at approximately \$38,240.

The Board will interpose no objection to the proposal as outlined in your letter.

Approved unanimously.

Letter to The National City Bank of New York, New York, New York, reading as follows:

The Board of Governors of the Federal Reserve System authorizes The National City Bank of New York, New York,

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New York, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish a branch in the city of Cairo, Egypt, and to operate and maintain such branch subject to the provisions of such section; upon condition that, unless the branch is actually established and opened for business on or before November 1, 1955, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted shall automatically terminate on such date.

Upon the opening of the branch, please advise the Board as to the location of the branch in the city of Cairo. It is understood, of course, that no change will be made in the location of such branch without the prior approval of the Board of Governors.

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

Letter to The Honorable H. E. Cook, Chairman, Federal Deposit Insurance Corporation, reading as follows:

Reference is made to your letter of October 19, 1954, concerning the application of the Skagit Valley State Bank, Sedro Woolley, Washington, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

No corrective programs have been urged upon the bank or agreed to by it which, in the opinion of the Board of Governors, it would be considered desirable to incorporate as conditions to the continuance of deposit insurance.

Approved unanimously.

The following resignations were presented:

Carl E. Beuchert, Jr., Clerk, Division of Administrative Services, effective November 16, 1954.

Genese V. Pirilla, Assistant Federal Reserve Examiner, Division of Examinations, effective November 2, 1954.

Approved unanimously.

There was presented a request from Miss Burr, Assistant Director, Division of Research and Statistics, for authority to travel to Philadelphia,

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Pennsylvania, November 8-10, 1954, to attend the System Conference on Bank and Public Relations to be held at the Federal Reserve Bank of Philadelphia.

Approved unanimously.

At this point Messrs. Vest, General Counsel, Sloan, Director, Division of Examinations, Hackley, Assistant General Counsel, and Hostrup, Assistant Director, Division of Examinations, entered the room.

Consideration was given to a memorandum from Mr. Hackley dated October 27, 1954, copies of which had been sent to the members of the Board, dealing with certain questions of Board policy posed by section 301 of the Banking Act of 1935, which amended the provisions of the Banking Act of 1933 defining a "holding company affiliate" by providing that an organization shall be excluded from the definition of that term (except for the purposes of section 23A of the Federal Reserve Act) if it is determined by the Board of Governors "not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies." The two questions raised by the memorandum were:

(1) What should be the Board's policy in considering applications for section 301 determinations where the applicant controls only a single bank?

(2) Should any presently outstanding section 301 cases be reconsidered by the Board to determine whether the favorable determination in any such case should be rescinded?

After reviewing the practices followed by the Board over the years in making section 301 determinations in "one-bank" cases, Mr. Hackley's

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memorandum stated that there appeared to be three possible alternative general policies which might be adopted for the disposition of such cases, as follows:

(1) Make favorable determinations automatically in all cases in which the applicant controls only a single bank;

(2) Make favorable determinations as a normal matter in all one-bank cases, but with the understanding that a determination could be declined in any extraordinary case in which such action would seem necessary; or

(3) As a general rule, decline to make favorable determinations in all one-bank cases unless the circumstances are clearly such as to make a favorable determination appropriate.

Following a discussion of the arguments which might be made for and against each of the alternatives, the memorandum stated that the staff favored the second, which would mean that favorable determinations would be granted as a normal matter in all one-bank cases unless there were exceptional circumstances which would make a refusal of such determination appropriate.

There had also been sent to the members of the Board copies of a longer memorandum prepared by Mr. Hackley for Governor Robertson under date of February 3, 1954, entitled "Criteria for Making Section 301 Determinations" and comprising a study of the purposes and administration of section 301 to determine what should be proper standards for Board action under that section. The memorandum included sections on the pertinent statutory provisions, their legislative history, the administrative

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practice of the Board, the evaluation of factors, recommended criteria, and the effect of the application of such criteria upon Board practice.

With regard to determinations made by the Board in the past, Mr. Hackley's memorandum of October 27 stated that a review by the Division of Examinations disclosed 78 "live" cases, of which 22 cases (all but five of which involved only one controlled bank) might warrant reconsideration by the Board either because the positive and negative factors in such cases offset each other or because the negative factors appeared to predominate. (The positive and negative factors referred to were discussed in Mr. Hackley's memoranda.) It was the view of the staff, however, that if the Board adopted the recommended alternative policy, no useful purpose would be served by reconsideration of the 22 cases at this time because it seemed doubtful whether any of them involved such exceptional circumstances as to justify refusal of a determination under that policy. In addition, it was felt that there would be a legal question as to the propriety of rescinding determinations in cases where there had been no substantial change in facts since the original determination was made.

At the request of the Board, Mr. Hackley reviewed the principal points covered in his memoranda, following which Mr. Vest stated that since the Congress had not laid down any specific standards in the law, thus making it necessary for the Board to fix its own standards by reading the whole law and by interpreting the concept that the Congress had in mind in enacting the legislation, it seemed to him that the Board should adopt

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what it considered to be a reasonable position in the circumstances.

Mr. Vest expressed the view that the second alternative policy was a reasonable one: its adoption would do justice to the apparent intent of the Congress and would not appear to be harmful to the public interest.

Mr. Sloan pointed out that although favorable determinations would be granted in most cases under the second alternative policy, consideration would be given, in connection with each application, to the nature of the holding company, its business, and the character of its other holdings. Such a procedure, he felt, would serve to adequately protect the public interest.

Governor Robertson then made a statement in which he said that although he disagreed with the conclusions of the staff, he felt that there was no difference of opinion in any fundamental respect. As he saw the problem, the Congress had acted very specifically in defining a holding company affiliate. In so doing, the Congress had not made any exception for one-bank cases but at the same time recognized that there were to be some exceptions. He felt that the Board must handle these cases in a manner in keeping with the Congressional intent, which in his opinion was that favorable section 301 determinations should be the exception rather than the rule. The application of such a philosophy would call for the adoption of the third alternative policy rather than the second, although in fact these alternatives were different merely in their emphasis. Thus, it was Governor Robertson's belief that the law would call for the Board (1) to make an unfavorable presumption in each case, which would govern

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unless the facts of the case clearly warranted a different position, (2) to look into each case very carefully, and (3) to analyze the various applications on a case-by-case basis rather than through use of a formula.

Turning to the question of reviewing the outstanding determinations, Governor Robertson said that in his opinion the 22 so-called questionable cases definitely should be reviewed by the Board on the basis of staff review and recommendations. While it was his opinion that the Board should resolve any doubt in those cases in favor of the position taken by previous Boards, he felt that it was the duty of the Board to review at regular intervals all questionable cases to see whether there were any changes in situations or relationships which would operate in a manner inconsistent with the provisions of the law. To put it another way, the Board should review the outstanding determinations, but change them only if the facts and circumstances had changed substantially.

Governor Mills said he was inclined to feel that the approach favored by Governor Robertson went further than was required by the law or by the Board's administrative responsibilities. He found himself persuaded by the staff reasoning in favor of the second alternative policy, which in his opinion would permit a sufficiently flexible approach to handle with facility all cases that might deserve differentiation from the normal case. If the more strict approach was adopted, he was fearful that the Board would be extending its administrative authority and power further into the field of regulation than the Congress intended and further than

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would be essential to the public interest. Although not familiar with the 22 outstanding questionable determinations, he presumed that a review of them by the Board would be desirable. At the same time he felt that in reviewing the cases there should be a presumption that the existing determinations should not be disturbed.

Chairman Martin stated that although the points raised by Governor Robertson appealed to him as worthy of consideration, he had reached the same conclusions as Governor Mills. After pointing to the difficulties which would confront the Board if, in any matter of this kind, it should decide to extend its regulatory authority beyond what might conceivably be the intent of the Congress, he expressed the view that the Board would be justified in doing so only if it believed that such a course was required in the public interest. In the matter under consideration, he saw no real indication that the public interest would be served by so doing. Chairman Martin thought that the Board should examine carefully the circumstances surrounding every application for a section 301 determination, but said that he would favor resolving the questions in a lenient way except when he was convinced that a favorable determination in a particular case would be contrary to the public interest. For these reasons, he preferred the emphasis suggested in the second alternative rather than the third.

Governor Szymczak said that he likewise favored the second alternative policy. He supported a procedure under which the Board would examine carefully into each case coming before it and determine whether or

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not there were factors involved which would warrant an exception to the general presumption in favor of granting the requested determination.

Governor Balderston said it seemed desirable to him that the Board review the 22 doubtful cases, particularly because in making the determinations the Board had reserved the right to reconsider them if the facts should at any time differ from those existing at the time of the determination. As to the policy that the Board should follow in handling future applications for section 301 determinations, he preferred the second alternative, which would be in line with his general position that the Board should not presume to extend its regulatory powers in any field beyond the clear intent of the Congress.

At the conclusion of the discussion, it was understood that it would be the policy of the Board, in line with the staff recommendation, that favorable section 301 determinations should be made as a normal matter in all one-bank cases, but with the understanding that a determination would be declined in any extraordinary case in which such action should seem necessary. It was also understood that the 22 outstanding cases referred to as doubtful in Mr. Hackley's memorandum of October 27, 1954, would be reviewed by the staff and that recommendations would be submitted to the Board for its consideration.

Reference was made to the action taken on November 2, 1954, in sending the following telegram to Mr. Johns, President of the Federal Reserve Bank of St. Louis:

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Your wires re conversion of First National Bank of Zeigler, Illinois, into nonmember State bank. Board agrees with your view that in making payment of proceeds of Federal Reserve Bank stock formerly held by First National Bank of Zeigler such proceeds should include dividends accrued only through last day of membership of National Bank in Federal Reserve System and that such accrual should not continue after conversion into nonmember bank.

This action was approved
and ratified by unanimous vote.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on November 1, 1954, were approved unanimously.

Governor Mills withdrew from the meeting at this time to keep an outside appointment. All of the members of the staff with the exception of Messrs. Carpenter, Thurston, and Sprecher also withdrew from the meeting at this point.

Chairman Martin stated that to assist the Board in the selections remaining to be made for appointment as Class C directors of the Federal Reserve Banks and directors of branches for terms beginning January 1, 1955, he would suggest that staff work in developing information on possible appointees be centralized in Mr. Thurston.

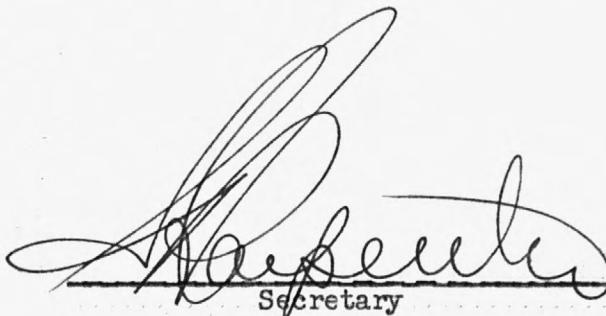
This suggestion was approved unanimously.

Chairman Martin stated that in accordance with the action taken at the meeting of the Board on October 12, 1954, he had informed the chairmen of the respective Federal Reserve Banks of the appointments of Class C directors, deputy chairmen, and directors of branches already

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made by the Board for terms beginning January 1, 1955, and that the chairmen had stated that the actions of the Board were entirely agreeable to them.

The meeting then adjourned.



Secretary