

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, November 18, 1954. The Board met in the Board Room at 9:30 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. Riefler, Assistant to the Chairman  
 Mr. Leonard, Director, Division of Bank Operations  
 Mr. Sloan, Director, Division of Examinations  
 Mr. Marget, Director, Division of International Finance  
 Mr. Solomon, Assistant General Counsel  
 Mr. Noyes, Assistant Director, Division of Research and Statistics  
 Mr. Goodman, Assistant Director, Division of Examinations  
 Mr. Dembitz, Assistant Director, Division of International Finance  
 Mr. Hackley, Assistant General Counsel  
 Mr. Temagna, Chief, Financial Operations and Policy Section, 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:

Memorandum from Governor Szymczak dated November 16, 1954, recommending that Athens J. Messick, Clerk-Stenographer in the Division of Research and Statistics, be transferred to his office as Stenographer, with an increase in her basic annual salary from \$3,655 to \$3,785, effective as of the date of assuming her new duties.

Approved unanimously.

11/18/54

-2-

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

The Board of Governors of the Federal Reserve System has considered the recommendation of your Bank, contained in your letter of November 5, 1954, and, pursuant to the provisions of Section 19 of the Federal Reserve Act, grants permission to Bank of Los Angeles, at Westwood, Los Angeles (Westwood Village), California, to maintain the same reserves against deposits as are required to be maintained by banks located outside of central reserve and reserve cities, effective as of the date of commencement of business by the subject bank.

Please advise the bank of the Board's action in this matter, calling attention to the fact that such permission is subject to revocation by the Board of Governors of the Federal Reserve System.

Approved unanimously.

Governor Szymczak commented on a visit to his office yesterday afternoon by representatives of the Carrier Corporation, who protested the handling by the Federal Reserve Bank of Atlanta of bids submitted by that corporation and another concern for air conditioning the new Birmingham Branch building and left with Governor Szymczak a letter of representation addressed to the Federal Reserve System under date of November 15, 1954. Copies of this letter had been sent by Governor Szymczak to all of the members of the Board prior to this meeting.

Discussion of the matter included supplemental comments by Messrs. Carpenter and Leonard, both of whom attended the meeting in Governor Szymczak's office, and reference to correspondence explaining the situation which had been sent to Mr. Leonard by the Federal Reserve Bank of Atlanta following the visit to his office by a Carrier Corporation representative

11/18/54

-3-

concerning which Mr. Leonard commented at the meeting of the Board on November 10, 1954. Chairman Martin then suggested that a reply to the letter from the Carrier Corporation be drafted and circulated to the members of the Board, along with pertinent papers, prior to consideration of the matter at another meeting of the Board.

This suggestion was approved unanimously.

At the meeting on October 26, 1954, the Board considered a request by The Chase Bank, New York, New York, an Edge corporation, for permission to invest in the stock of a company proposed to be organized under the Companies Act of the Dominion of Canada. Acting pursuant to instructions at that meeting, the Board's staff submitted to Counsel for The Chase Bank a memorandum of items which the Board wished to have explored further. These points were discussed in a letter dated November 4, 1954, from Mr. John J. McCloy, Chairman of the Board of The Chase Bank, copies of which had been sent to the members of the Board prior to this meeting along with copies of a transmittal letter from Mr. Sproul, President of the Federal Reserve Bank of New York, which noted that the Reserve Bank saw no reason to change its recommendation that the Board of Governors give its consent to the proposed investment. There had also been sent to the members of the Board copies of a memorandum from Mr. Solomon dated November 17, 1954, giving the views of the Board's staff regarding the points covered in Mr. McCloy's letter.

At the request of the Board, Mr. Solomon reviewed the background of the matter, commented in some detail on various legal aspects involved,

11/18/54

-4-

and discussed the reasons underlying the staff recommendations contained in his memorandum of November 17.

In a response to a request by Chairman Martin for comment on the proposal in terms of its economic aspects, Mr. Marget stated that the proposal was one which appeared to be entirely consistent with the Governmental policy of fostering private foreign capital investment and that he would favor the undertaking provided such safeguards as the Board considered necessary could be worked out satisfactorily. He also stated that he concurred in the recommendations contained in Mr. Solomon's memorandum.

Governor Mills then made a statement in which he said that if it appeared that the working out of the matter with The Chase Bank was now proceeding on a negotiated basis and if it seemed that the points referred to in Mr. McCloy's letter and Mr. Solomon's memorandum could be covered in a way which was mutually satisfactory, he would favor going forward on that basis. However, if the matter were being considered as a new item of business, it would be his feeling that in most of the areas in question the Board should remain silent. It was his view that the most logical way of preventing such transactions, or types of operations, on the part of an Edge corporation as the Board deemed undesirable in fulfilling its legal responsibilities would be to place restrictions in the charter of the corporation. If the applicants for such a charter were financially weak or if the Board had any question about their business standards, the charter should be denied, but where a group was financially responsible and their business standards acceptable, it seemed to him that the Edge

11/18/54

-5-

corporation and any subsidiaries thereof should be given the greatest freedom of action possible within statutory limitations. In cases where an Edge corporation was chartered and undesirable activities were noted in the course of its operations, Governor Mills pointed out that the Board could request correction or, in an extreme case, could repeal the charter.

Governor Mills questioned the wisdom of imposing numerous restrictions in connection with the Board's consent for an Edge corporation to make an investment such as proposed by The Chase Bank because he felt that to do so might in a sense presume an intent by the Chase to engage in inappropriate activities, whereas it actually appeared to be the Chase's intent to engage in activities of a type which it would be desirable to foster as a matter of policy.

Governor Szymczak said it was his impression that both Governor Mills and the staff were striving toward the same objective and that the principal question was how far the Board could go under its regulatory powers and the pertinent statutory limitations. He pointed out that once the Board granted The Chase Bank consent to purchase stock in the proposed Canadian subsidiary, it would not thereafter have more than an indirect control over the activities of the subsidiary and that, accordingly, the questions which had been raised with The Chase Bank were ones which it would seem proper for the Board to raise for exploration with any Edge corporation that might make a similar request. He doubted the advisability of going so far as to impose conditions which would make it necessary for The Chase Bank to come to the Board for authority in

11/18/54

-6-

connection with specific transactions of the subsidiary, but otherwise he considered the recommendations in Mr. Solomon's memorandum appropriate and he favored carrying forward the discussions with The Chase Bank on that basis.

Governor Balderston said it was his feeling that at the outset the Board should assume that The Chase Bank was embarking on this venture in accordance with objectives of which the Board would approve. Like Governor Szymczak, he thought that the Board, in granting its consent, should not set up conditions which would require detailed supervision of the subsidiary's various activities, since the Board was not equipped to consider individual transactions and, even if it were, it seemed doubtful whether that would be a proper function for the Board. To put it another way, Governor Balderston thought the Board could hope to do no more than inquire from time to time regarding the Canadian subsidiary's operations and take the matter up with The Chase Bank if it had reason to believe that activities were being undertaken which were not appropriate. In general, his feelings on the matter were along the lines of the views expressed by Governor Mills.

Chairman Martin said it appeared to him that the Board in approaching the matter might be thinking too much in terms of "fringe problems". He expressed agreement with the emphasis which Governor Mills had placed upon the financial competence and responsibility of the parties initiating such a proposal and said that, assuming it was a good thing in principle

11/18/54

-7-

to have an undertaking of the kind in question and assuming there were no other avenues available through which the interested parties could proceed, it seemed to him that the Board must be prepared to run some risks and go as far as possible to be helpful. Should an arrangement of this sort not prove feasible, or if unsound practices developed, he thought that the Board might then be in a position where it would want to propose remedial legislation to the Congress. In the meantime, he felt that the Board should not exaggerate whatever difficulties might be involved.

Governor Robertson then made a statement in which he said that although a very plausible case had been made that the general objectives of the proposal were good, he had doubts about it for several reasons. First, he pointed out that the Special Committee on Foreign Operations of American Banks (the Neal Committee) would shortly submit its report, which might be expected to furnish better guideposts regarding the proper scope of operations of Edge corporations than those now available to the Board. Secondly, he referred to the fact that once the Board had given its consent and the Canadian subsidiary became active, the Board would not have the power to examine the subsidiary so that effective supervision would be difficult and the Board would be forced to rely upon such information as might be furnished it on a voluntary basis. As a third point, he raised the question whether the proposal was quite in line with what the Congress intended in authorizing the Board to allow a commercial bank to set up an Edge corporation. In this connection, he expressed the view

11/18/54

-8-

that it would be preferable to amend the Board's regulations rather than to permit them to be circumvented.

In the course of further discussion, Chairman Martin said that he considered the points Governor Robertson had made to be ones which it would be valuable for the Board to bear in mind. He questioned, however, whether the report of the Neal Committee would be especially helpful to the Board in reaching a decision on the case before it, and comments by members of the staff familiar with the work of the Committee indicated that the report probably would not be particularly valuable for that purpose.

Governor Robertson then stated that he would not vote against giving the requested consent to The Chase Bank, but that he would like to be recorded as not voting and have his reasons stated in the minutes. He also suggested that in any further discussions with Chase Bank representatives every effort be made to work out an arrangement pursuant to which adequate information concerning the subsidiary's activities would be made available to the Board.

Following further discussion as to the course of action which might be followed, it was suggested that Mr. Solomon draft a letter to The Chase Bank to the effect that the Board had considered Mr. McCloy's letter of November 4, that the Board would like to have additional information on certain points as a matter of clarification, and that the Board wished to suggest that The Chase Bank draw up and submit for the



11/18/54

-9-

Board's consideration a draft of stockholders' agreement incorporating various points, including those discussed with representatives of the bank.

The suggested procedure was approved, Governor Robertson not voting for the reasons he had indicated.

Secretary's Note: In accordance with the foregoing action, the following letter was sent to the Federal Reserve Bank of New York on November 24, 1954, for transmittal to Mr. McCloy:

This refers to your letter of November 4, 1954 regarding the possible investment by your Bank in a proposed Canadian corporation.

The Board has carefully considered your letter and has noted your suggestion that certain matters might be covered by an agreement which would be executed by all the stockholders of the proposed corporation, and remain in force while The Chase Bank owns any stock in the corporation. It is believed that it would aid in consideration of this problem at this stage if you would have your counsel prepare for the consideration of the Board a draft of a suitable stockholders' agreement which would incorporate the points stated in the attached memorandum. For convenience, the memorandum follows the points listed as 1(a) through 1(f) in your letter of November 4, 1954 and in the memorandum of points for exploration mentioned in your letter. The Board's staff will, of course, be glad to be of such assistance as it can to your counsel in his preparation of a draft.

Governor Mills then withdrew from the meeting to keep an outside appointment. Messrs. Marget, Goodman, Dembitz, and Tamagna also withdrew at this point.

Chairman Martin had recently had a visit from Messrs. Knute C. Borregard, Secretary and Treasurer of the Federal National Mortgage Association, and David M. Kennedy, Assistant to the Secretary of the

11/18/54

-10-

Treasury, who outlined a proposal whereby the Federal Reserve Banks would act as fiscal agents in connection with short-term debentures to be issued by the Association against mortgages acquired or committed for by the old Federal National Mortgage Association, for the purpose of reimbursing the Treasury for amounts advanced to the Association for the acquisition of mortgages. Copies of a memorandum prepared by Messrs. Riefler and Noyes under date of November 17, 1954, spelling out the proposal in more detail, had been sent to the members of the Board in advance of this meeting.

The matter was discussed in the light of information contained in the memorandum and on the basis of a question raised by Chairman Martin as to whether the proposal would involve activities on the part of the Federal Reserve Banks going beyond those normally performed by the Banks as fiscal agents. Along these lines, it was mentioned that in the absence of a syndicate manager for the debentures, the circularization of commercial banks by the Federal Reserve Banks at the time of the offering might be taken to imply an endorsement of the securities and some obligation on the part of the Reserve Banks to promote the sale of the debentures.

For all of these reasons, there was some feeling on the part of the Board that it would be preferable if the Federal National Mortgage Association could work out an arrangement under which an agent would be appointed to handle the issue, or a group of dealers designated. At the same time it was recognized that the Association had explored and apparently

11/18/54

-11-

had rejected these alternatives, and that the Federal Reserve Banks were authorized and directed by the Housing Act of 1954 to act as fiscal agents for the Association (on a reimbursable basis). The discussion also brought out that a request from the Association to the Federal Reserve System would have the endorsement of the Treasury, although it was understood that the Treasury would not insist if the System interposed strong objections.

Consideration was given to what course of action should be followed in connection with the proposal, and some feeling was expressed that the matter might be turned over to the Federal Reserve Bank Presidents in order that they might explore the feasibility of such a fiscal agency arrangement from the operating standpoint, the thought being that the conclusions reached by the Presidents might be of assistance to the Board in reaching a decision on policy grounds. However, it was noted that representatives of the Association already had discussed the matter with officers of the Federal Reserve Banks of Chicago and New York, that those officers considered the proposal workable, and that Messrs. Borregard and Kennedy had requested the views of the Board from the standpoint of the policy aspects involved. In all the circumstances, it was suggested that Chairman Martin confer again with Messrs. Borregard and Kennedy, expressing to them the points which were of concern to the Board but not going so far as to close the door to a request by the Federal National Mortgage Association, after full consideration of the factors involved, that the

11/18/54

-12-

Federal Reserve Banks act as fiscal agents in connection with the proposed debentures.

This suggestion was approved unanimously.

Messrs. Riefler, Leonard, Sloan, Noyes, and Hackley then withdrew from the meeting.

Mr. Carpenter reported that Mr. Brott, General Counsel for the American Bankers Association, had advised him that a meeting of the secretaries of the State bankers' associations for the eastern region would be held in Washington on January 13 and 14 or January 27 and 28, 1955, and that Mr. Brott was interested in knowing whether the Board would be willing to meet with the State secretaries and have them for luncheon at the Board's offices.

It was agreed that Mr. Carpenter should state to Mr. Brott that the Board would be glad to receive the group and would suggest that the meeting be held on the later of the two dates in January which had been mentioned.

There was presented a draft of letter to Mr. Denmark, Vice President of the Federal Reserve Bank of Atlanta, reading as follows:

This refers to your letter of November 12, 1954, in which you transmitted the request of the Progressive Bank and Trust Company, New Orleans, Louisiana, for permission under the provisions of condition of membership numbered 1 to act as trustee and paying agent for the 20 year 4% debentures in the total amount of \$400,000 and 4,000 shares of no par value common stock of the New Orleans Pelicans, Inc. It is noted that it is not the desire of the member bank to exercise general trust powers and that the authority requested is only to permit the bank to act as trustee and paying agent for the securities mentioned above.

11/18/54

-13-

In view of the Reserve Bank's recommendation and the information submitted, the Board of Governors of the Federal Reserve System grants the applicant permission, under the provisions of its condition of membership numbered 1, to act as trustee and paying agent for the debentures and stock of the New Orleans Pelicans, Inc. You have previously been advised by telegram of the approval of this request, and we assume that you have advised the member bank accordingly.

Following a discussion, the matter was referred to Governor Robertson with power to act.

Secretary's Note: Governor Robertson having indicated his approval, a letter was sent to Vice President Denmark today in the form set forth above, along with a telegram advising of the action taken by the Board.

Governor Robertson stated that it appeared desirable, in connection with the Board's program for relocation of activities in an emergency, that the positions occupied by the secretaries to Mr. Vest, General Counsel, and Mr. Leonard, Director of the Division of Bank Operations, and the positions occupied by Mr. Hackley, Assistant General Counsel, and Mr. Myrick, Assistant Director, Division of Bank Operations, be declared "sensitive" positions. He therefore recommended that these positions be added to the list of those previously designated as "sensitive", with the understanding that full field investigations of the occupants would be conducted.

Governor Robertson's recommendation was approved unanimously.

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11/18/54

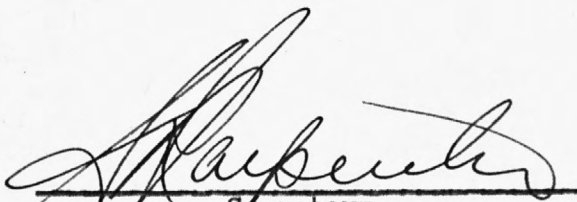
-14-

Reserve System on November 17, 1954, were approved unanimously.

The meeting then adjourned.

The Board met at 10:00

PRESENT: Mr. [unclear]  
Mr. [unclear]  
Mr. [unclear]  
Mr. [unclear]  
Mr. [unclear]

  
Secretary

The following members

of the Board, were present

Indicated:

Memoranda from [unclear]

personal notices with [unclear]

Appointments, effective [unclear]

date of [unclear]

Name and title:

Wish B. Gillard,  
Clerk-Secretary

Salary Commission, effective [unclear]

Name and title:

Ray G. Van Fossen,  
Clerk