

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

PRESENT: Mr. Martin, Chairman
 Mr. Szymczak
 Mr. Mills
 Mr. Robertson

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Thurston, Assistant to the Board
 Mr. Leonard, Director, Division of
 Bank Operations
 Mr. Vest, General Counsel
 Mr. Johnson, Controller, and Director,
 Division of Personnel Administration
 Mr. Solomon, Assistant General Counsel
 Mr. Hexter, Assistant General Counsel
 Mr. Daniels, Assistant Controller
 Mr. Stetson, Personnel Technician, Division
 of Personnel Administration

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

Letter to Mr. Woolley, Vice President, Federal Reserve Bank of Kansas City, reading as follows:

In accordance with the request contained in your letter of December 1, 1954, the Board approves the appointment of George J. Hix as an assistant examiner for the Federal Reserve Bank of Kansas City. Please advise as to salary rate. If the appointment is not made effective January 1, 1955, as planned, please advise us.

Your letter of November 6, 1953, in connection with his designation as a special assistant examiner, stated that Mr. Hix owned 11 shares of common stock of Estes Park Bank, Estes Park, Colorado, a nonmember bank. It is understood that Mr. Hix can dispose of this stock without hardship, and the Board's approval of the appointment

12/10/54

-2-

is given with the understanding that he will dispose of such stock within a reasonable time, if he has not already done so.

Approved unanimously.

Telegram to Mr. Leach, President, Federal Reserve Bank of Richmond, reading as follows:

Board will interpose no objection to your Bank's calling for bids for the enlargement of the building of the Charlotte Branch on the basis of the final plans and specifications referred to in your letter of November 11.

In accordance with customary procedure, a summary report of the bids should be forwarded to Board together with recommendation of Bank as to acceptance.

Approved unanimously.

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

Reference is made to your letter of November 29, 1954, regarding the request of the Newton-Waltham Bank and Trust Company, Waltham, Massachusetts, for an extension of six months' time within which to establish three branches - one at 148-150 or 244 Needham Street in the Upper Falls section of Newton, Massachusetts; one at the junction of Commonwealth Road and Main Street in the Town of Wayland, Massachusetts; and one near the junction of Trapelo Road and Lexington Street in the North Waltham section of Waltham, Massachusetts.

After consideration of all the information available, the Board concurs in your recommendation and extends to June 9, 1955, the time within which the Newton-Waltham Bank and Trust Company, Waltham, Massachusetts, may establish the three branches at the afore-mentioned locations, as originally approved in the Board's letter of June 9, 1954. Please advise the bank accordingly.

Approved unanimously.

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

Reference is made to the letters from your Bank, dated October 21 and November 17, 1954, with respect

12/10/54

-3-

to the informal advice received from Mr. Bayard Pope, Chairman of the Board of Marine Midland Corporation, to the effect that Marine Midland Corporation proposes to acquire the controlling stock of Genesee Valley Trust Company, Rochester, New York, and of Bank of Gowanda, Gowanda, New York.

On the basis of preliminary information, the Board of Governors has no objection at this time to the transactions but, of course, will base its final action with respect to the acquisition of Bank of Gowanda on full information to be furnished with the application for permission to establish the offices now operated by that bank as branches of The Marine Trust Company of Western New York, Buffalo, New York.

With respect to the acquisition of Genesee Valley Trust Company and the merger of that bank with the Corporation's presently controlled subsidiary, Union Trust Company of Rochester, Rochester, New York, it is presumed that no further action by the Board will be necessary, since both banks are nonmember insured institutions.

Approved unanimously.

Letter to the Board of Directors, Orange County Trust Company, Middletown, New York, 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 Orange County Trust Company, Middletown, New York, on the northerly side of Scotchtown Road adjacent to its intersection with State Route 84, in an unincorporated area of the Town of Wallkill, Orange County, New York, provided the branch is established within one year from the date of this letter.

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

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

There was forwarded to the Board a copy of your Bank's letter to Mr. Jerome C. Eppler, dated September 10,

12/10/54

-4-

1954, which expresses the view that Mr. Eppler's concurrent service as a director of The First National Iron Bank of Morristown, New Jersey, and as an employee of Cyrus J. Lawrence & Sons, New York City, a partnership, at this time is not prohibited by section 32 of the Banking Act of 1933, as amended. Also forwarded were copies of other correspondence between your Bank and Mr. Eppler relative to this matter.

On the basis of all of the information that has now been received, the Board concurs in the view that section 32 does not at this time prohibit Mr. Eppler's concurrent service as a director of The First National Iron Bank of Morristown, New Jersey, and as an employee of Cyrus J. Lawrence & Sons. The Board also concurs with that part of your letter of September 10 which indicated to Mr. Eppler that any change in the situation might require a different conclusion and that, therefore, it would be necessary for your Bank to review the matter periodically.

Approved unanimously.

Letter to Mr. Hill, Vice President, Federal Reserve Bank of Philadelphia, reading as follows:

Reference is made to your letter of December 3, 1954, and enclosures, with respect to the retirement by Camden Trust Company, Camden, New Jersey, of \$150,000 par value, preferred stock on December 30, 1954.

After considering the information submitted and your favorable recommendation, the Board of Governors gives its prior consent to the proposed retirement of \$150,000 of preferred stock by the trust company.

It is understood that Counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken in effecting the retirement.

Approved unanimously.

Letter to The First National Bank in Fort Myers, Fort Myers, Florida, 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, executor, administrator, registrar of stocks and bonds,

12/10/54

-5-

guardian of estates, assignee, receiver, committee of estates of lunatics, 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 Florida, the exercise of all such rights to 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 First National Bank in Fort Myers is now authorized to exercise will be forwarded to you in due course.

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

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

As recommended in your letter of November 29, 1954, the Board of Governors extends to June 30, 1955, the time within which the First State Bank of Salina, Salina, Utah, may establish a branch in Panguitch, Utah.

The bank's October call report indicates that action has not been taken to increase the capital account in conformance with the condition imposed when the branch was originally authorized. It is assumed appropriate action will be taken within the near future.

Approved unanimously.

Letter to the Board of Directors, Bank of Whittier, Whittier, California, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors approves the establishment of a branch by Bank of Whittier in East Whittier, California, an unincorporated area, such branch to be located in the vicinity of Whittier Boulevard and Santa Gertrudes

12/10/54

-6-

Avenue; provided (a) additional capital is supplied as required by the State Superintendent of Banks, and (b) the branch is established within six months from the date of this letter.

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

Letter for the signature of the Chairman to Senator Knowland, United States Senate, Washington, D. C., reading as follows:

On November 29, 1954, you referred to us for consideration a letter dated November 22, 1954, from Mr. E. A. Gibbs, Cashier of the Bank of Whittier, Whittier, California, and enclosures, protesting the granting by the Comptroller of the Currency of permission to a national bank to establish a competing branch in East Whittier, California.

The Bank of Whittier is a member of the Federal Reserve System, and we have had under consideration that bank's application for permission to establish a branch in East Whittier. We are glad to report that the Board of Governors has approved that application.

As you know, approval of the establishment of branches by national banks is a matter within the jurisdiction of the Comptroller of the Currency. The Board understands that his approval for the establishment of a branch by Security-First National Bank of Los Angeles in East Whittier, California, was given early in November.

We are returning herewith the communication which you referred to us.

Approved unanimously.

Letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington, D. C., reading as follows:

This is in reply to your letter of November 24 enclosing a proposed bill entitled "A Bill To provide for retirement of the Government capital in the regional banks for cooperatives and the Central Bank for Cooperatives, and for other purposes."

12/10/54

-7-

While the Board appreciates the opportunity to comment on this bill, it relates to a subject, with many ramifications, which the Board has not had occasion to study since it lies outside the field of the Board's special competence. Accordingly, the Board has no comments or suggestions to offer.

Approved unanimously.

Letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., (Attention: Mr. L. A. Jennings, Deputy Comptroller of the Currency), reading as follows:

Reference is made to a letter from your office dated November 18, 1954, with respect to an application to convert the South Bay Bank, Center Moriches, New York, into a national bank and requesting a recommendation as to whether or not the application should be approved.

Information obtained from the Federal Reserve Bank of New York concerning this application discloses favorable findings with respect to the factors usually considered in connection with such proposals. The Board of Governors, therefore, 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.

Letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., (Attention: Mr. G. W. Garwood, Deputy Comptroller of the Currency), reading as follows:

Reference is made to a letter from your office dated November 2, 1954, enclosing photostatic copies of an application to organize a national bank at Great Falls, Montana, 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 a representative of the Federal Reserve Bank of Minneapolis, indicates generally satisfactory findings with respect to the factors usually considered in connection with such applications,

12/10/54

-8-

except the adequacy of the capital structure. On the basis of the potential future deposits of the institution, our informant suggests that a minimum capital structure of at least \$200,000 be required instead of \$130,000 proposed by the applicants. The Board of Governors recommends approval of the application, provided arrangements are made for a capital structure satisfactory to your office.

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.

Memorandum from Mr. Carpenter dated November 29, 1954, stating that Mr. Hollis W. Burt, Executive Director of Consumer Bankers Association, had advised Chairman Martin that the Association was planning to hold its mid-winter meeting in Washington around March 17 or 18, 1955, and that he had inquired whether arrangements could be made to have the Executive Committee visit the Board's offices at that time. The memorandum recommended that Mr. Burt be informed that the Board would be glad to have the Association's Executive Committee visit the Board's offices during the period indicated.

Approved unanimously.

There was presented a memorandum from the Division of Personnel Administration dated December 9, 1954, recommending that, in accordance with the Executive Order dated December 6, 1954, all employees of the Board of Governors be excused from work for the entire day on Friday, December 24, 1954, and for four hours on Friday, December 31, 1954, without charge to annual leave. The memorandum also recommended that the cafeteria and staff dining rooms be closed on December 31 and that the snack bar be closed at 8:45 a.m. on December 31, 1954.

Approved unanimously.

12/10/54

-9-

Before this meeting there had been sent to the members of the Board a memorandum prepared by the Division of Personnel Administration under date of December 7, 1954, with respect to the effect of the Social Security Amendments of 1954 on the Retirement System of the Federal Reserve Banks. The memorandum stated that the Conference of Presidents of the Federal Reserve Banks at its September 1954 meeting recommended that there be no change in the Rules and Regulations of the Retirement System to reflect the 1954 amendments to the Social Security Act. The memorandum referred to discussions of this subject in letters from Mr. Wurts, Chairman of the Retirement Committee of the Retirement System of the Federal Reserve Banks, dated September 10 and 25, 1954, and to a memorandum from the Division of Personnel Administration dated November 22, 1954. The memorandum dated December 7 dealt with the significance of gradual diminution of Federal Reserve retirement benefits as a result of increasing integration of the Retirement System of the Federal Reserve Banks with the program under the Social Security Act; and with problems with respect to additional cost to the Government arising from action or inaction (i.e. by not integrating fully) resulting in a measure of duplicate coverage by the two programs.

Governor Mills discussed the background of the relationship between the Retirement System of the Federal Reserve Banks and Social Security coverage and the alternatives open to the System with respect to recent amendments to the Social Security Act. He pointed out that

12/10/54

-10-

in 1951, when Social Security coverage was first extended to Reserve Bank personnel, contributions to the Retirement System by both the Banks and the employees were reduced by the amount of their respective Social Security taxes. A corresponding reduction in both the annuity and pension portions of the total retirement allowance accompanied this action. This integration of Social Security taxes and Retirement System contributions was effected only up to the basic salary level (\$3,600) on which Social Security taxes were levied. On all salary above that level, Retirement System rates of contribution and retirement benefits remained unchanged.

The Social Security amendments of 1954 increased the taxable basic salary from \$3,600 to \$4,200, thereby presenting the Retirement System with the alternative of reducing the rate of Bank and employee Retirement System contributions on all salary payments made up to the new \$4,200 level, or of continuing them at the present level. If the latter alternative were followed, as the Presidents' Conference recommended, dual payment on the \$600 span between the old and new basic salary rates would result for both the employing Bank and the employee. The recommendation that there be no reduction in contributions to the Retirement System to allow for the increased salary on which Social Security taxes are to be levied after January 1, 1955, was made by the Presidents in the light of study by the Retirement Committee on the grounds that (a) the employees would prefer an increased rate of contribution to a further reduction in the accumulation which ultimately purchases the annuity portion of the Retirement allowance, and (b) the increased cost to the Banks of

12/10/54

-11-

.10 per cent of payroll would be less than the saving (.25 to .30 per cent of payroll) that would result from the increased scale of Social Security benefits also provided by this legislation.

Governor Mills went on to say that he favored approval by the Board of the action taken by the Presidents' Conference, although this could conceivably result in criticism on the grounds that 90 per cent of the payment by the Banks on that portion of each employee's salary falling between \$3,600 and \$4,200 would otherwise revert to the Treasury Department and hence might be construed as an unwarranted cost to the Reserve Banks in providing a dual coverage. Governor Mills stated the reasons why he felt dual coverage to the extent indicated could be justified under the circumstances described, the principal reason being that if the pension and annuity benefit under the Retirement System were to be reduced each time Social Security benefits were increased, the allowance ultimately might consist largely of the Social Security benefit.

Mr. Stetson then commented on the technical aspects of the proposal submitted by the Presidents' Conference, particularly with respect to the possibility that if the taxable base on which Social Security benefits were calculated continued to rise and if integration took place on the higher level, ultimately the retirement benefits available to the employees of the Federal Reserve Banks would be almost exclusively those available under the Social Security Act. It was Mr. Stetson's view that the Social Security Act was part of a welfare program intended to provide minimum protection for retirement and survivorship purposes. The Federal Reserve Retirement

12/10/54

-12-

System, on the other hand, had been set up with a view to providing benefits more nearly comparable to those provided by private retirement systems covering other employees in the areas in which the Federal Reserve Banks were located, with the aim of relating such benefits to salary levels and length of service.

Mr. Vest stated that if Social Security benefits were to be increased in the future and if the points at which Federal Reserve Retirement System benefits were to be integrated with Social Security were to rise along with that increase, the benefits from the Federal Reserve Retirement System would gradually become a lesser proportion of the total retirement benefit. On the other hand, Mr. Vest noted that if the additional benefits provided under the Social Security System were to increase and if the Federal Reserve Retirement System did not integrate with Social Security at the increased levels, there would be more and more duplication between the pension portion of the Federal Reserve Retirement allowance and the Social Security benefit and there might be criticism of the sort made by Senator Williams in connection with the passage of the Social Security Act of 1954.

Governor Szymczak felt that the relationship between the Federal Reserve and the Government was such that it was generally undesirable to have duplication in benefits such as would result if the recommendation of the Presidents' Conference were approved. It was his view that perhaps the initial mistake was when the Federal Reserve Banks became subject to the Social Security Act at the beginning of 1951. Since that step had

12/10/54

-13-

been taken, he questioned whether it would now be desirable to follow the course recommended by the Federal Reserve Bank Presidents, which would be a departure from the course originally followed when the Retirement System of the Federal Reserve Banks was integrated with Social Security in 1951 so as to avoid duplication of benefits.

Governor Mills responded by stating that the Federal Reserve Bank Presidents were quite frank in saying that the course now recommended in connection with the new Social Security benefits to become effective January 1, 1955, was not regarded as an ultimate solution to the problem, in the event of further increases in the base figure used in the calculation of Social Security taxes and benefits. However, the Presidents felt that at this time it was preferable not to increase, from \$3,600 to \$4,200, the basis for calculation of Federal Reserve Retirement System contributions and benefits, but rather to retain the figure of \$3,600 as the amount of salary on which contributions by the Banks and employees were to be reduced by the amounts of Social Security taxes.

In the course of further discussion, Governor Robertson stated that while he had been inclined to concur in the recommendation of the Presidents' Conference, he would appreciate having an opportunity to study the matter further in the light of the discussion at this meeting.

Mr. Carpenter stated that Governor Balderston, who was absent on official business today, had requested before he left that he be recorded as favoring the recommendation of the Presidents' Conference in the event this matter were taken up when he was not present. Mr. Carpenter also said that Governor Vardaman had stated that he would concur in whatever

12/10/54

-14-

action the majority of the Board took in this connection.

Chairman Martin suggested that the Board act to approve the recommendation of the Presidents' Conference at this time, with the understanding that if, after further study later today, Governor Robertson wished to bring the matter back to the Board, he would do so.

Chairman Martin's suggestion was approved unanimously.

Messrs. Johnson, Hexter, and Stetson withdrew from the meeting at this point.

Reference was made to a memorandum from Messrs. Solomon and Daniels dated December 8, 1954, reading as follows:

In December 1953 two completed packages of \$20 notes of the Federal Reserve Bank of New York, having a face value of \$160,000, were stolen from the Bureau of Engraving and Printing (before delivery to the Federal Reserve vault.) The Treasurer of the United States has \$127,840 of these notes which were recovered from the thieves. He also has \$4,916.64 in other currency and coin which was recovered from the thieves and awarded by court order.

The loss, \$27,243.36, will be borne by the Bureau of Engraving and Printing and paid for out of its revolving fund. In order to validate the issuance of the stolen notes and clear the records of all agencies concerned, the procedure outlined in the attached memorandum has been worked out by representatives of all the interested agencies, including the Federal Reserve Bank of New York. It follows the usual procedure for local delivery of new Federal Reserve notes to the Treasurer of the United States, which is described in the attached mimeographed statement.

In order to provide formal approval of the plan by all agencies concerned, the plan contemplates that each agency will authorize someone to meet with similar representatives of the other agencies and sign copies of the memorandum outlining the procedure. The Federal Reserve Bank of New York has authorized someone to sign for it, and it is recommended that the Board authorize someone to sign on behalf of the Board.

After comments on the procedure by Messrs. Solomon, Daniels, and

12/10/54

-15-

Leonard, Mr. Solomon was authorized to sign the memorandum on behalf of the Board.

Mr. Hackley, Assistant General Counsel, entered the room at this point.

There was presented a letter for the signature of Governor Robertson to The Honorable A. Willis Robertson, reading as follows:

This refers further to your letter of November 19 enclosing a tentative draft of a bank holding company bill and requesting comments.

At the outset I should like to say that this matter has been discussed in some detail with all members of the Board of Governors and at a regular meeting of the Board and that this letter represents not merely my own views but those of the other Board members. I should also like to emphasize again the point made by Chairman Martin in his testimony before your Committee in June 1953 that it is not the Board's purpose to endorse or oppose any particular bill or to claim for its views any superiority over the views of others. We are, however, glad to give you the benefit of our views and to offer any assistance possible.

The draft of bill enclosed with your letter appears to be essentially identical with the so-called "Committee Print" of a bill which was ordered to be printed during the 1953 hearings and which was designed to reflect the position of the Board as set forth by Chairman Martin and myself at those hearings. The Board continues to hold the same general views as to bank holding company legislation as those which were expressed by it at that time; and, consequently, the draft of bill enclosed with your letter is in general accord with our views on this subject, although we would suggest a few changes.

As a preliminary matter, it is noted that the draft would expressly designate the Board of Governors as the "administering agency". As previously stated by the Board, it makes no recommendation as to the agency which should be selected for administration of the legislation; it does believe, however, that administration should be vested in a single agency.

12/10/54

-16-

After further study and in the light of some of the objections which have been raised with respect to the Committee Print, we believe that a few changes in the bill would be desirable. These suggested changes are indicated in the enclosed copy of the draft of bill submitted by you, with suggested new language in capital letters and omitted language stricken through. I shall try to explain briefly the reasons for these suggestions.

1. In the definition of "bank holding company" in section 2(a) of the draft, it is intended, we believe, that a company which meets the definition at any time after the specified date shall continue thereafter to be a bank holding company (regardless of subsequent reductions in its ownership of bank stocks) unless and until it ceases to own or control any bank stocks or unless it is administratively exempted by the Board as not being engaged "as a business" in holding bank stocks or managing or controlling banks. However, it has been suggested that the language is susceptible of being interpreted as meaning that a company would be a bank holding company only while it actually "owns or controls" the prescribed percentage of the stock of a bank and that it would cease to be covered if it should reduce its holdings of stock below that percentage. Since the statute would be a criminal statute, it is believed that the intent of the bill on this point should be made perfectly clear. Also, it would appear desirable to insert the words "directly or indirectly" after the word "controlled" in clause (2) of the definition, thus conforming to the language of clause (1).

2. The last sentence of section 2(a) of the draft prescribes certain factors to be considered by the Board in making a determination that a company is not engaged "as a business" in holding bank stocks or managing or controlling banks in such manner and to such an extent as to require its regulation. In order to make it clear that the authority of the administering agency to make such exemptions is intended to permit the exclusion of "accidental" or "incidental" holding companies, it is suggested that this sentence should include an additional factor or standard which would require consideration by the Board of the purpose for which control of bank stocks was acquired by the holding company and the manner in which such control is exercised.

3. Subsection (c) of section 4 of the draft would authorize the Board, in approving acquisitions of bank stocks, to prescribe such conditions as it deems necessary to assure the sound financial condition and satisfactory management of

12/10/54

-17-

the holding company and its controlled banks. Objection has been raised to this provision on the ground that the administering agency should not be given such a broad discretion to impose continuing conditions subsequent; and it is recognized that any conditions of this kind might well give rise to problems of enforcement. Accordingly, it is suggested that this entire subsection (c) be omitted from the draft.

4. In section 5(a) of the draft, it is not absolutely clear whether the prohibition against engaging in any business other than banking or managing or controlling banks is intended to become effective upon the date of enactment of the Act or after two years following its enactment. Also, it is not perfectly clear that a company which may hereafter become a bank holding company would have two years after that event in which to comply with the requirements of this section as to divestment of nonbanking interests. It is suggested that these points be clarified by appropriate changes in the language of subsection (a) of section 5 of the draft.

If you should look favorably upon these few suggestions, it is believed that they could be accomplished by the modifications in language indicated in the enclosed copy of your draft of bill.

In addition to the changes heretofore suggested, you may wish to give further consideration to at least some of the objections which have been raised to the Committee Print and which would probably also be raised with respect to your proposed bill.

With reference to the definition of the term "bank holding company", some of the witnesses at the hearings, including those representing the American Bankers Association, objected to the definition in the Committee Print, which was based primarily on the test of 50 per cent stock ownership of any one bank, on the ground that it would not be adequate. They favored, instead, the definition in S. 1118 introduced by Senator Capehart which was based on the ownership of 25 per cent or more of the stock of at least two banks and which would have included also any company determined by the Board to exercise a controlling influence over two or more banks.

At that time, the definition in the Committee Print was adequate to cover all known holding company groups which needed to be covered in order to accomplish the main objectives of the legislation. Since that time, the situation has changed and in one instance we understand that a bank holding company is in the process of reducing its control of

12/10/54

-18-

bank stocks to a point below the 50 per cent level and it would not, therefore, be covered by the definition. However, this action is being taken by the bank holding company in order to comply with State law and pursuant to the request of the State authorities.

We would still be opposed to the vesting of discretionary authority in the administering agency to bring under the definition companies which do not meet the mathematical formula. Also, we continue to feel, for the reasons stated in 1953, that the definition should be related to control of one bank instead of two or more banks as provided by the Capehart bill. However, in the light of opinions expressed at the hearings last year and in the light of the changed situation mentioned in the previous paragraph, we would not object to a lowering of the percentage test in the definition from 50 per cent to, say, 25 per cent, if you were so disposed, notwithstanding the fact that such a change would substantially increase the administrative burden which would be imposed on the Board. The change could be accomplished merely by changing the words "a majority" to read "25 per centum or more" in clauses (1) and (4) of section 2(a) of the bill. It would not be necessary or desirable, for obvious reasons, to make any change in clauses (2) and (3) which refer to control of 50 per cent of the stock voted at an election of directors and to control in any manner of the election of a majority of the directors of any bank.

Such a lowering of the percentage test would undoubtedly result in the coverage of some companies which would not seem to require regulation. However, such companies could be excluded from coverage by the administering agency after making the determination provided for in the next to the last sentence of section 2(a) of your draft. The additional administrative burden of making such exemptive determinations would be preferable to the inclusion of a provision vesting discretion in the administering agency to bring companies under the definition.

Representatives of some of the bank holding companies have suggested that the requirements of the bill for divestment of nonbanking interests should provide an exception with respect to the holding of stock in any nonbanking enterprise which is not controlled by the holding company if such stockholdings do not exceed 5 per cent of the voting stock of such enterprise. They argue that such limited investments in nonbanking enterprises would afford bank holding companies a useful secondary reserve. We have tried to weigh the pros and

12/10/54

-19-

cons of this position and find ourselves neutral. Perhaps the proponents or opponents of the suggested exception could sway us from that position, either for or against, but at the moment our feeling is that, although the proposed bill as now written represents a cleaner-cut break between banking and nonbanking businesses, the suggested exception would not seem to be so inconsistent with the major objectives of the legislation as to warrant our opposition. In case you may feel inclined for any reason to amend your bill to include such an exception, it could be done by adding at the end of subsection (c) of section 5 of your proposed bill a new subparagraph reading as follows:

"(4) to shares of any company which do not comprise more than five per centum of the outstanding voting shares of such company, provided such company is not controlled by the bank holding company owning or controlling such shares."

In the course of the June 1953 hearings, it was suggested by the Office of the Comptroller of the Currency and by some other witnesses that the provisions of the pending legislation affording tax relief where a bank holding company divests itself of nonbanking interests should be supplemented by provisions which would afford similar tax relief where a company chooses to divest itself of its banking interests rather than its nonbanking interests. This seems to be a suggestion worthy of consideration. However, the merits of this proposal and the drafting of any provisions for this purpose should, we believe, be considered by tax experts of the Treasury Department. We have not undertaken to review the language of the tax provisions of the bill.

During the 1953 and 1954 hearings before the Senate Banking and Currency Committee various witnesses suggested a number of other changes in the so-called Committee Print, such as the inclusion of provisions requiring consent to action resulting in the formation of a new bank holding company, eliminating the necessity for consent to the acquisition of additional shares of stock in a bank already controlled by a bank holding company, prohibiting or limiting loans by subsidiary banks to their bank holding company, and providing for judicial review of administrative action. However, in keeping with our belief that legislation on this subject should be kept to a minimum necessary to accomplish its objectives, it is our view that changes of the kind above indicated would be either unnecessary or undesirable. On the other hand, if you should feel that any of these points merit consideration, we shall be glad to spell out our views.

12/10/54

-20-

One of the objections which has been raised with respect to the Committee Print and will undoubtedly also be raised with respect to your draft seems to merit special comment. Specifically it relates to the provision contained in the last sentence of section 4(d) of your new draft which would prohibit the approval of any acquisition of the stock of any State or national bank in any State if, under the same circumstances, the acquisition of stock of a State bank by a bank holding company is expressly prohibited by the statutes of the State. It has been contended that this provision threatens the dual banking system and would involve an improper delegation to the States of a right to regulate and restrict ownership of stock in national banks. This question of States' rights - and that is what it really boils down to - is one with respect to which only Congress can decide. The decision, whatever it may be, would not affect the administration of the legislation and consequently an expression of our views on the question may not be necessary. However, you may be interested in knowing that we find little merit in this objection. The provision would be comparable to present provisions of the National Bank Act which make the authority of a national bank to establish out-of-town branches dependent upon the branch banking laws of the State. The provision would, we believe, provide a proper and effective means of preserving the right of the various States to regulate the operations of bank holding companies within their borders. We doubt that the Federal Government should prohibit or preclude the respective States from dealing with this problem in a more restrictive manner if they see fit to do so.

I am sorry that this letter had to be so long but I could think of no better way in which to set forth our comments with respect to the draft enclosed with your letter; and I hope that our suggestions may be of some assistance to you in connection with further consideration of your draft.

Approved unanimously.

Mr. Hackley withdrew from the meeting at this point.

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Cleveland, Richmond, Atlanta, St. Louis, Minneapolis, Dallas, and San Francisco approving the establishment without change by the Federal Reserve Bank of Boston on December 6, by the Federal Reserve Bank of St. Louis on December 6 and 9, by the Federal Reserve Bank

12/10/54

-21-

of Atlanta on December 8 and 9, by the Federal Reserve Bank of San Francisco on December 8, and by the Federal Reserve Banks of New York, Cleveland, Richmond, Minneapolis, and Dallas on December 9, 1954, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Reference was then made to the memorandum of topics submitted for consideration of the Board following the meeting of the Conference of Presidents of the Federal Reserve Banks in Washington on December 6, 1954. The topics, the statement of the Presidents with respect to each, and the actions taken at this meeting were as shown below:

1. Expenses chargeable to personnel, research and bank and public relations functions. At its September meeting, the Conference had approved in principle the report of the ad hoc committee to review the functional distribution of expenses in the areas of personnel, research, and bank and public relations. Pursuant to the instructions of the Conference at that time, the Committee on Collections and Accounting at the current meeting presented a refined definition of the management development function, together with a report of the Subcommittee on Accounting dated December 2, 1954, which clarified the suggested definitions of functional classifications in the light of tests of their applicability to 1955 Reserve Bank budgets. The Conference accepted both the refined management development definition and the subcommittee report, after provision for certain minor clarifying revisions in the latter.

It was agreed unanimously to refer this matter to the Board's Division of Bank Operations with a view to having the necessary steps taken, in consultation with the Subcommittee on Accounting of the Presidents' Conference, to incorporate the changes in the Accounting Manual.

12/10/54

-22-

2. Transmission of wire transfers of funds and C.P.D. transactions in clear language between Reserve Banks. The Presidents considered the recommendations contained in the report of the October 5-8, 1954 meeting of the Subcommittee on Cash, Leased Wire, and Sundry Operations concerning arrangements for the transmission of wire transfers of funds and C.P.D. transactions in clear language between Reserve Banks. The Conference agreed with the subcommittee view that the utilization of these procedures on a System-wide basis promised sufficient over-all savings and service improvements to warrant their adoption throughout the System, even though the savings in some smaller Reserve Bank offices would not fully offset the cost of the additional equipment at such offices. Accordingly, the Conference concurred in the subcommittee recommendation for the establishment of the requisite additional circuits and the installation of special form teletypewriters at each station on the leased wire system. It was expected that adoption of this plan will increase annual line and equipment rental cost by \$151,800, while resulting in annual salary savings of \$235,800. In addition, a charge of \$25,800 was estimated for installation of the additional equipment at the switching center and the Reserve Banks, and the Conference approved the subcommittee recommendation that this charge be prorated in the usual manner on the basis of capital and surplus.
3. Standby power for switching center. The Conference considered the recommendations contained in the report of the October 5-8, 1954 meeting of the Subcommittee on Cash, Leased Wire, and Sundry Operations for the provision of standby power facilities at the Richmond switching center. The installation cost of a standby Diesel-powered generator and a bypass power line was estimated at \$17,500, with a continuing monthly rental of \$1.50 for the power line. The Conference concurred in the subcommittee recommendation for the addition of these facilities, and in the attendant recommendation that installation costs be prorated in the usual manner on the basis of capital and surplus.

The foregoing recommendations
were approved unanimously.

12/10/54

-23-

4. Development of a currency counting and sorting machine. The Presidents considered the November 26, 1954 letter from the Subcommittee on Electronics concerning the obstacles to negotiation of a contract for development of a currency counting and sorting machine with Batelle Memorial Institute. Objections to such negotiations were raised by Bowser, Inc., a firm earlier considered as a possible developer of such a machine, on the basis of Bowser's previous submission of confidential information to Batelle in the latter's capacity as adviser to the subcommittee. In view of these objections, the subcommittee recommended that no attempt be made to continue negotiations with Batelle and that the subcommittee be authorized to explore the possibility of placing the development contract with another concern. The Conference concurred in these recommendations, with the provision that further subcommittee investigation should be extended in so far as practicable to all firms which might be qualified to undertake the development of a currency counting and sorting machine.

This matter was noted.

5. Expediting the processing and approval of commercial bank branch applications. The Presidents were apprised by the Chairman of the Committee on Bank Supervision of the procedures being followed by the Board and the Board staff to facilitate prompt action on commercial bank branch applications. As one possible means of further speeding this procedure, the Conference recommended that the Board consider beginning its processing of branch applications before receiving notice of approval of such applications by the state banking department involved, with final notice of Board action to be reserved until such time as the approval by the state banking department is received.

Governor Robertson stated that he had been unable to ascertain any specific instances of delay referred to in the statement of the Presidents' Conference. He felt it would be undesirable for the Board to act on applications for commercial bank branches prior to knowing the action to be taken by State supervisory authorities but that such applications should be

12/10/54

-24-

processed and made ready for submission to the Board and otherwise handled in a manner to avoid delay in the Board's offices.

It was understood that Mr. Young, Chairman of the Presidents' Conference, would be advised that the Board would expedite the handling of the applications referred to in any manner practicable.

In taking the above actions it was understood that Chairman Young would be informed by letter of the decisions reached and that the letter would also state that the Board appreciated the information contained in the last section of the memorandum concerning other actions taken by the Presidents' Conference at its meeting on December 7.

Mr. Carpenter stated that Mr. Henry Drought of San Antonio had inquired by telephone whether his services as Chairman of the Board of Commissioners of the Public Housing Authority of San Antonio would be prohibited by the spirit of the Board's 1915 resolution with respect to the holding of political or public office by Federal Reserve Bank directors, in the event he accepted the Board's tender of appointment to serve as a Class C director of the Federal Reserve Bank of Dallas for a three-year term beginning January 1, 1955.

Mr. Carpenter outlined the status of the Housing Authority as described in a memorandum from Mr. Hackley, Assistant General Counsel, dated December 9, 1954, which concluded that, for reasons set out in the memorandum, Mr. Drought's services as Chairman of the Housing Commission should not be regarded as being prohibited. The memorandum also noted that

12/10/54 Minutes of actions taken -25-

the question was not legal in nature but was one of policy.

It was agreed unanimously that Mr. Drought would be advised by telephone that the Board would have no objection to his continuance to serve as Chairman of the Board of Housing Commissioners while he is serving as a Class C director.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on December 9, 1954, were approved unanimously.

The meeting then adjourned.


Secretary