

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, December 14, 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. Vest, General Counsel  
Mr. Sloan, Director, Division of Examinations  
Mr. Masters, Assistant Director, Division of Examinations

The following requests for travel authorization were presented:

Lowell Myrick, Assistant Director, Division of Bank Operations. To travel to New York, New York, on December 17, 1954, to attend, as associate member, a meeting of the Subcommittee on Electronics.

C. Richard Youngdahl, Assistant Director, Division of Research and Statistics. To travel to Detroit, Michigan, on December 30, 1954, to present a paper at the American Economic Association meetings.

Approved unanimously.

There was presented a memorandum dated December 9, 1954, from Mr. Vest with respect to the exercise by a trust estate of rights to subscribe to additional shares of stock of the trustee bank. The memorandum had been prepared in response to a request of the Board at the meeting on December 8 during a discussion of the recommendation of the Federal Advisory Council at its meeting with the Board on November 16, 1954, that Regulation F, Trust Powers of National Banks, be amended to allow a trustee bank to exercise rights to subscribe to its own bank stock held by the

12/14/54

-2-

bank in trust accounts, on the grounds that such an amendment in many instances would facilitate the issuance of additional common stock by the bank.

Mr. Vest commented on the memorandum, reviewing the consideration given to suggestions in past years that Regulation F be liberalized along these lines. He referred particularly to the action of the Board in 1946 when, in response to a request of the Riggs National Bank in Washington, D. C., the Board took the position that it would be permissible under Regulation F for a bank to exercise subscription rights held in a trust account to acquire additional shares of its own stock, if the amount so invested were limited to the amount realized from the sale of other rights held in the account and received in connection with the same offering. Mr. Vest also referred to the letter sent by the Board to the American Bankers Association under date of May 13, 1953, in which it took the position that existing provisions of the Regulation are as liberal as should be permitted. Mr. Vest went on to say he would not be disposed to recommend any further liberalization of the Regulation.

Mr. Sloan, who had prepared a memorandum dated November 19, 1954, which had been circulated to the members of the Board with Mr. Vest's memorandum of December 9, 1954, stated reasons why he felt it would not be desirable to liberalize the Regulation along the lines suggested by the Federal Advisory Council.

Mr. Masters said that, in his opinion, the point under consideration was of relatively minor importance, and that the larger problems arose when

12/14/54

-3-

a bank continued to retain stock of the bank which was in trust estates placed in the hands of the bank for administration. He added that the more enlightened trust departments were avoiding these questions by disposing of the stock.

At the conclusion of a discussion, it was agreed unanimously that a letter should be prepared for Chairman Martin's signature advising Mr. Brown, President of the Federal Advisory Council, that, for reasons discussed at this meeting and set forth in the Board's letter to the American Bankers Association in May, 1953, the Board did not feel that a liberalization of Regulation F along the lines suggested by the Council would be desirable.

**Secretary's Note:** In accordance with the foregoing, a letter was mailed to Mr. Brown under date of December 20, 1954, reading as follows:

At the recent meeting of the Federal Advisory Council with the Board, it was stated that the Council believes that a revision of Regulation F which would allow the exercise of rights on its own stock held in the bank's trust accounts would in many instances facilitate the issuance of additional common stock by banks.

As you know, Regulation F provides that funds received or held by a national bank as fiduciary shall not be invested in stock of the bank, but this requirement does not prohibit the making of an investment expressly required by the trust instrument or specifically authorized by court order.

The Board has considered this question on a number of occasions in the past, and has again reconsidered it in the light of the Council's recent suggestion, but does not feel that the regulation should be changed in this regard.

As you know, the rule of undivided loyalty is firmly fixed in fiduciary undertakings and the Board does not believe that it should be relaxed or weakened. In reconsidering this question, the Board is impressed with the importance of the principle that a trustee ought not to place itself in a position where its own interests may conflict with those of the trust beneficiaries.

12/14/54

-4-

The existence of such a potential conflict may place too great a burden upon the trustee in making important administrative decisions, precluding the exercise of wholly independent and disinterested judgment and presenting the opportunity for self-serving actions.

Messrs. Sloan and Masters withdrew from the meeting at this point.

Mr. Carpenter stated that in accordance with the understanding at the meeting of December 13, 1954, Messrs. Hill, Vice President, and Vergari, Counsel, Federal Reserve Bank of Philadelphia, planned to come to the Board's offices on Monday afternoon, December 20, 1954, at 2:30 p.m., for the purpose of discussing with the Board the request of the Montgomery-Norristown Bank and Trust Company, Norristown, Pennsylvania, that it be permitted to acquire shares of stock in a title insurance corporation to be formed to take over the title insurance businesses now carried on by that bank and by a nonmember bank.

Mr. Carpenter stated that Mr. J. C. Warner, who had been appointed by the Board as a director of the Pittsburgh Branch of the Federal Reserve Bank of Cleveland for the term beginning January 1, 1955, had advised that he was a member of the General Advisory Committee to the Atomic Energy Commission and that while he assumed it would not come within the terms of the Board's Resolution of December 23, 1954, with respect to the holding of political or public office, he wished to bring the matter to the attention of the Board in connection with his willingness to accept the appointment which had been tendered. Mr. Carpenter went on to say that Mr. Hackley, Assistant General Counsel, had prepared a memorandum under date of December 13, 1954, which stated that the Committee advised the Atomic Energy

12/14/54

-5-

Commission on scientific and technical matters relating to materials, production, and research and development, that the members served without salary but received a per diem and travel expenses, and that in the circumstances, he believed Mr. Warner's services as a member would not be inconsistent with the spirit of the Board's 1915 Resolution.

The Board agreed unanimously that service of the type described by Mr. Warner was not inconsistent with the terms of the Board's Resolution, and it was understood that he would be advised of this decision by wire.

Mr. Carpenter also stated that in a telephone conversation, President Fulton, of the Cleveland Federal Reserve Bank, had informed him that Mr. John C. Baker, presently a director of the Cincinnati Branch of that Bank who had been reappointed for the term beginning January 1, 1955, had informed him that he would prefer not to accept reappointment unless the Board felt he should do so as a public service. Mr. Baker's reason for preferring not to be reappointed was that he had been asked to serve as a commercial bank director in Athens, Ohio, and he was desirous of accepting that appointment.

It was understood that Mr. Baker would be advised informally through Mr. Fulton that the question of further service was a matter for his decision since the Board would not wish to have him accept reappointment as a director of the Cincinnati Branch unless he wished to do so.

Mr. Carpenter reported that a telegram had been received from Mr. Joe W. Seacrest of Lincoln, Nebraska, stating that he would accept

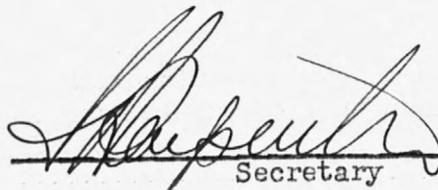
12/14/54

appointment as a Class C director of the Federal Reserve Bank of Kansas City for the term commencing January 1, 1955, and that in order to qualify he would dispose of fifty shares of bank stock which he owned if the Board so requested.

There was unanimous agreement that a telegram would be sent to Mr. Seacrest advising him that the Federal Reserve Act provided that no Class C director shall be an officer, director, employee, or stockholder of any bank, and that the Board was pleased that he had indicated he would dispose of the shares in order to qualify.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on December 13, 1954, were approved unanimously.

The meeting then adjourned.

  
Secretary