Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, December 20, 1954. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Vest, General Counsel
Mr. Johnson, Controller, and Director, Division of Personnel Administration
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 the action taken in each instance was as indicated:

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

> In accordance with the request made in your letter of November 12, 1954, the Board of Governors approves the following minimum and maximum salaries for the respective grades of a new salary structure for non-clerical jobs at the Head Office and Buffalo Branch effective December 23, 1954:

Grade	Minimum Salary	Maximum Salary
1	$2,204	$2,865
2	2,306	3,009
3	2,419	3,169
4	2,549	3,352
5	2,705	3,571
6	2,895	3,836
7	3,118	4,147
8	3,386	4,520
9	3,707	4,967
10	4,078	5,485
11	4,475	6,040

The Board approves the payment of salaries to the non-clerical employees within the limits specified for the grades in which the positions of the respective non-clerical employees are classified. It is assumed that all non-clerical employees whose salaries are below the minimum of their grades as a result of establishment of the non-clerical structure will be brought within the appropriate range as soon as practicable and not later than March 15, 1955.

Governor Mills stated that he had some doubts as to the desirability of establishing a separate and higher schedule of salaries for non-clerical workers at a Federal Reserve Bank on the grounds that their actual rates of pay were based on union rates paid workers in other organizations. It was his thought that recognition of those workers by a separate schedule might lead to difficulties which the Reserve Banks should try to avoid.

Governor Balderston stated that he, too, felt that there was a question as to the desirability of establishing a separate schedule of wages for non-clerical workers for the reason Governor Mills indicated. He had come to the conclusion, however, for reasons which he outlined, that it was preferable to approve the separate schedule proposed by the New York Bank as a direct means of dealing with the problem of wages for non-clerical workers rather than the one used at the Chicago Federal Reserve Bank, where approval has been given to paying wages above the maximum rates of the grades in which the workers are classified. In addition to the point made by Governor Mills, Governor Balderston said that the other principal argument against a separate schedule was that the

creation of two separate schedules for wages in the same organization would violate one of the basic objectives of good salary administration, namely, proper internal alignment of base rates of pay in accordance with the relative importance and difficulty of the work done. He felt that the latter argument lacked validity in the circumstances under discussion and that from the standpoint of good personnel management, it was much sounder to have definite schedules that could serve as a guide to the Bank for salary management. For that reason, he would take whatever chance there was that the separate scale for the non-clerical workers would become known and used in an effort to get still higher salaries.

During the foregoing comments Governor Szymczak entered the room.

Governor Mills stated that his views were in line with those expressed by Governor Balderston and that he, too, was inclined to approve the New York Bank's request despite the reservations he had concerning some aspects of the separate schedule.

Mr. Sprecher stated that the Federal Reserve Bank of New York had made a very complete study of the matter and was convinced that the separate scale was the preferable way to deal with the problem. He noted that in 1947, when the job evaluation and salary classification plan was first adopted by the Federal Reserve Banks, the New York Bank had considered proposing a separate scale for non-clerical workers but had concluded not to do so since their rates of pay were then close to the rates of pay for clerical workers. During the past two years, however, there

had been an increasing difference in the wages paid to the two types of workers and as a result the New York Bank felt it would either have to adjust its salary maxima for the clerical grades in order to take care of the non-clerical workers at the Bank, or it would have to request approval to pay salaries above the grades to a group of non-clerical workers — a procedure it was reluctant to adopt. Mr. Sprecher also noted that he had discussed this question with Mr. Lohmann, who served as personnel consultant to the Board in connection with the establishment of the salary administration plan in 1947, and that Mr. Lohmann felt that the proposal of the New York Bank was sound and in line with good salary administration.

After further discussion, the letter to Mr. Treiber was approved in the form set forth above.

Letter to Mr. Wayne, First Vice President, Federal Reserve Bank of Richmond, reading as follows:

> This refers to your letter of December 13, regarding the penalties of $140.92, $585.70, and $69.54 incurred by the American Bank and Trust Company, Suffolk, Virginia, as a result of deficiencies in reserves for the semi-monthly periods ended October 15, October 31, and November 15, 1954.
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> It is noted that the deficiencies resulted from the fact that the subject bank inadvertently failed to request its correspondent to transfer $125,000 on October 5 and $350,000 on October 18 to the Federal Reserve Bank, as intended, although the bank put the transfers through its books; that the bank carried ample funds with its correspondent to transfer these amounts; that the cashier of the bank, the official most familiar with the details involved in the maintenance of the proper reserves, was devoting a major part of his time to the training of personnel in another department of the bank, with the result the errors were not detected until it was too late to make adjustments in its reserves; and that the bank has an exceptionally good record in the maintenance of reserves during the past sixteen years.

In the circumstances, the Board authorizes your bank to waive assessment of the three penalties above mentioned.

Approved unanimously.

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

This refers to your letter of December 3, 1954, with its various enclosures, concerning The Live Stock National Bank of Omaha, Omaha, Nebraska, which went into voluntary liquidation effective August 20, 1954, with a sale of its assets to The Omaha National Bank, Omaha, Nebraska, and its desire to surrender its right to exercise fiduciary powers.

It is noted from the letter recently forwarded you by the liquidating agent that, while good progress has been made in closing out or transferring to successor fiduciaries the various accounts for which The Live Stock National Bank of Omaha held a fiduciary appointment, an additional 60 to 90 days may be required before the affairs of this trust department are fully liquidated. For this reason, we are not now requesting the Office of the Comptroller of the Currency to make the special examination required as a prerequisite to the issuance by the Board of a certificate certifying that such bank is no longer authorized to exercise any of the trust powers previously conferred upon it. As soon as you have been advised by the liquidating agent that all action has been taken necessary to discharge or otherwise properly relieve the bank of its fiduciary activities, will you so notify us in order that we may advise the Comptroller's Office.

Approved unanimously.

Telegram to Mr. Hodgkinson, Federal Reserve Agent, Federal Reserve Bank of Boston, authorizing, subject to the following conditions, the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to The National Shawmut Bank of Boston, Boston, Massachusetts, entitling such organization to vote the stock which it owns or controls of The Warren National Bank of Peabody, Peabody, Massachusetts, at all meetings of shareholders of such bank:

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

(FRLS #7190), except that paragraph numbered 3 shall be modified in manner stated in paragraph numbered (3) of S-964; and (2) simultaneously with issuance of general voting permit authorized herein, there shall be issued to Shawmut Association, Boston, Massachusetts, the general voting permit authorized in Board's telegram of this date.

Approved unanimously.

Telegram to Mr. Hodgkinson, Federal Reserve Agent, Federal Reserve Bank of Boston, authorizing, subject to the following conditions, the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to Shawmut Association, Boston, Massachusetts, entitling such organization to vote the stock which it owns or controls of The Warren National Bank of Peabody, Peabody, Massachusetts, at all meetings of shareholders of such bank:

(1) Prior to the issuance of general voting permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (FRLS #7190); and (2) simultaneously with issuance of general voting permit authorized herein, there shall be issued to The National Shawmut Bank of Boston, Boston, Massachusetts, the general voting permit authorized in Board's telegram of this date.

Approved unanimously.

Telegram to Mr. Harris, Federal Reserve Agent, Federal Reserve Bank of Atlanta, authorizing, subject to the following conditions, the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to Trust Company of Georgia Associates, Atlanta, Georgia, entitling such organization to vote the stock which it owns or controls of Dekalb National Bank of Brookhaven, Brookhaven, Georgia, at all meetings of shareholders of such bank:

(1) Prior to issuance of general voting permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (FRLS #7190); and (2) simultaneously with issuance of general voting permit authorized herein, there shall be issued to Trust Company of Georgia, Atlanta, Georgia, general voting permit authorized in Board's telegram of this date.

Approved unanimously.

Telegram to Mr. Harris, Federal Reserve Agent, Federal Reserve Bank of Atlanta, authorizing, subject to the following conditions, the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to Trust Company of Georgia, Atlanta, Georgia, entitling such organization to vote the stock which it owns or controls of Dekalb National Bank of Brookhaven, Brookhaven, Georgia, at all meetings of shareholders of such bank:

(1) Prior to issuance of general voting permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (FRLS #7190); and (2) simultaneously with issuance of general voting permit authorized herein, there shall be issued to Trust Company of Georgia Associates, Atlanta, Georgia, general voting permit authorized in Board's telegram of this date.

Approved unanimously.

Letter to Mr. Wayne, First Vice President, Federal Reserve Bank of Richmond, reading as follows:

In the light of the circumstances described in your letter of December 6, 1954, the Board of Governors interposes no objection to the substitution of insurance provided by private insurers for your present Blue Cross-Blue Shield plans with the understanding that detailed cost figures will be submitted to the Board of Governors before final commitments are made to the insurer or the personnel of the Bank.

Approved unanimously.

Letter for the signature of the Chairman to The Honorable Joaquin Martinez Saenz, President, The National Bank of Cuba, Havana, Cuba, reading as follows:

Thank you very much for your letter of November 19 advising of the meeting of auditors of central banks which is to be held in Havana in April 1955, pursuant to arrangements between your Bank and the Center for Latin American Monetary Studies.

The Board appreciates a great deal your kind invitation to participate in the meeting. From a perusal of the agenda, however, it does not appear that the Board will be in a position to send anyone with the proper combination of technical and linguistic qualifications.

The Board is impressed by reports which it has received of the planning which has gone into the preparations for this meeting, and trusts that the proceedings in Havana will be constructive and of much benefit to the participating central banks.

Approved unanimously.

Letter to Mr. Fulton, President, Federal Reserve Bank of Cleveland, reading as follows:

Referring to your letter of December 9, 1954, the Board of Governors approves the payment to your special counsel Squire, Sanders and Dempsey, of a bill totaling $14,749.46 for special services and expenses for the period December 15, 1951 to November 15, 1954, in connection with the law suit brought against your Bank by Bank of America N. T. & S. A. It is noted that your board of directors has authorized the payment of this bill subject to the prior approval of the Board of Governors, and that your Bank intends to treat such payment as an item for which your Bank will be reimbursed by the Treasury.

Approved unanimously.

Letter to Mr. Stetzelberger, Vice President, Federal Reserve Bank of Cleveland, reading as follows:

Reference is made to your letter of December 9, 1954, advising that Fidelity Trust Company, Pittsburgh, Pennsylvania, has moved its Monroeville office from 4114 William Penn Highway to permanent quarters in the Monroeville Miracle Mile Shopping Center, Monroeville, Pennsylvania, the latter location being approximately 1,000 feet from its former quarters.

It appears that this move was a mere relocation of an existing branch in the immediate neighborhood without affecting the nature of its business or customers served and, therefore, the approval of the Board of Governors is unnecessary.

Approved unanimously.

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

Enclosed are sample copies of the annual profit and loss statement (Form F. R. 657) which has been revised to

bring the terminology of captions used into conformity with the table currently appearing in the Board's Annual Report (pages 66-67 of the Report for 1953).

Please use the new forms, a supply of which is being sent your Bank, beginning with the report for the year 1954.

In reviewing the financial statements in Annual Reports published by the Federal Reserve Banks, considerable variation in form has been noted. In addition to minor differences in terminology and general arrangement, there are variations in the definition of "net earnings" and the apportionment thereof.

While complete uniformity is not essential, it would be desirable for the statements of Earnings and Expenses published by the individual Reserve Banks to be in substantial agreement with the over-all data published by the Board. Accordingly, it is requested that the same terminology for captions and the same order of presentation shown in the Board's current Annual Report be followed in your Bank's published statements. There is no objection, of course, to showing more or less detail than appears in the Board's Report.

Approved unanimously.

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

In accordance with the request contained in your letter of December 13, 1954, the Board approves the appointment of Veron Jacob Meador as an assistant examiner for the Federal Reserve Bank of Richmond.

Approved unanimously.

Letter to the Board of Directors, Washington Trust Company of Washington, N. J., Washington, New Jersey, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch by Washington Trust Company of Washington, N. J., Washington, New Jersey, in the vicinity of Wall Street, Village of Oxford, Township of Oxford, Warren County, New Jersey, provided

the branch is established within six months from the date of this letter.

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

Letter to Dr. Frederic D. Chapman, 1834 Eye Street, N. W., Washington, D. C., reading as follows:

The annual physical examination for each employee in the cafeteria of the Board of Governors of the Federal Reserve System will be continued during 1955 on the same basis as set forth in our letter to you of December 22, 1953.

I have been advised by the Division of Personnel Administration that these arrangements have worked out satisfactorily and also that the fee of $100 for the calendar year 1955 is agreeable with you. The number of examinations to be conducted will be substantially the same as in 1954.

Approved unanimously.

Messrs. Johnson and Sprecher then withdrew from the meeting.

Before this meeting there had been sent to the members of the Board a draft of letter prepared for Chairman Martin's signature to The Honorable Walter W. McAllister, Chairman, Federal Home Loan Bank Board, Washington, D. C., with respect to a proposal that section 13 of the Federal Reserve Act be amended so as to make Federal Home Loan Bank obligations eligible security for 15-day advances by Federal Reserve Banks to their member banks.

Chairman Martin stated that Mr. McAllister had visited his office on December 8, 1954, for the purpose of discussing the above proposal and subsequently sent him a letter, dated December 8, which listed this and

certain other legislative proposals that the Home Loan Bank Board proposed to recommend. Chairman Martin stated that Mr. Vest and Mr. Riefler were present at the time of Mr. McAllister's call, and he then requested that Mr. Vest outline the proposal which had been discussed and the draft of suggested reply.

Mr. Vest referred to a memorandum which he had prepared under date of December 10, 1954, which had been circulated among the members of the Board before this meeting, which reviewed the several legislative proposals which Mr. McAllister had listed in his letter, including the one discussed at the time of his visit to Chairman Martin's office. Mr. Vest stated that while there were several proposals which might be of interest to the Board, Mr. McAllister had asked for the Board's comments only with respect to the proposal to make Federal Home Loan Bank obligations eligible as security for 15-day advances by Federal Reserve Banks. Mr. Vest went on to say that this proposal was for the purpose of benefiting certain types of institutions and particular types of paper, whereas the Board had taken the position in the past that Federal Reserve policy with respect to the extension of credit should be impersonal and objective and should not be designed to improve the marketability of obligations of particular institutions. Mr. Vest noted that Federal Intermediate Credit Bank debentures were made eligible in 1923 as collateral for advances by Federal Reserve Banks to member banks but that there seemed to be no sound reason for going further in this direction. Accordingly, the draft of

letter which had been prepared for Chairman Martin's signature took the position that the proposed legislation would not be desirable.

Governor Mills stated that he concurred in the view that the proposed legislation would not be desirable, and he suggested a change in the draft of letter which would state that no good purpose is served, or has been served, by amendments to the law making obligations of particular types of institutions eligible as collateral for Federal Reserve credit.

Following a discussion, the letter to Mr. McAllister was approved unanimously, with the understanding that it would be changed to incorporate the suggestion made by Governor Mills.

Secretary's Note: In accordance with the foregoing action, the following letter was sent to Mr. McAllister under date of December 21, 1954:

This refers to your visit to my office on December 8, 1954, and to your letter of the same date, with regard to a proposal that section 13 of the Federal Reserve Act be amended so as to make Federal Home Loan Bank obligations eligible security for 15-day advances by Federal Reserve Banks to their member banks. You inquired as to the view which might be taken by the Board of Governors with reference to this proposal.

I have discussed the matter with the Board and have to advise that it feels that this proposed legislation would not be desirable. It is the Board's view that Federal Reserve policies with respect to credit accommodation should be designed to assist the member banks in meeting the credit needs of their communities, and that no good purpose is served, or has been served, by amendments to the law making obligations of particular types of institutions eligible as collateral for Federal Reserve credit. As indicated in our discussion of the subject, Federal Home Loan Bank obligations, like other

assets of member banks, are already eligible as collateral for borrowings by member banks under section 10(b) of the Federal Reserve Act at a rate 1/2 of 1 per cent higher than the usual discount rate, so that there is no question of their availability as a source of Federal Reserve credit advances on this basis when the occasion demands.

You left with me a memorandum prepared by your General Counsel, dated October 18, 1954, of various legislative proposals for possible recommendation by the Federal Home Loan Bank Board, but inquired as to our view only with respect to the proposal discussed above. Accordingly, I have not taken up with the Board of Governors the other proposals mentioned in the memorandum and am not undertaking to express any views with regard to them at this time.

There were presented telegrams to the Federal Reserve Banks of New York, Philadelphia, Chicago, St. Louis, and Kansas City approving the establishment without change by the Federal Reserve Bank of St. Louis on December 13, by the Federal Reserve Bank of Kansas City on December 14 and 17, and by the Federal Reserve Banks of New York, Philadelphia, and Chicago on December 16, 1954, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

The meeting then recessed and reconvened in the Board Room at 11:15 a.m. with the same attendance as at the close of the earlier session except that Messrs. Chase, Assistant General Counsel, and Shay, Assistant Counsel, were also present.

Governor Robertson stated that he had received a letter from Senator Robertson in response to his letter of December 10, 1954, regarding holding company legislation, which indicated that Senator Robertson would not take further action in connection with such legislation until

some indication had been given by the House Banking and Currency Committee as to whether it would be prepared to take action with respect to such legislation.

Chairman Martin referred to a memorandum from Mr. Vest dated December 16, 1954, with respect to the application of section 32 of the Banking Act of 1933 to Bank Fiduciary Fund, a mutual trust investment company which had been authorized by New York statute on April 10, 1954, to serve as a medium for common investment of fiduciary funds of banks and trust companies in the State of New York. Under date of April 7, 1954, the Board advised the Chairman of the Mutual Investment Fund Committee of the New York State Bankers Association (through the Federal Reserve Bank of New York) that it was of the view, on the basis of the information then at hand, that interlocking relationships between the Fund and member banks would not be permissible under the provisions of section 32 of the Banking Act of 1933. Subsequently, representatives of the New York State Bankers Association discussed the matter with members of the Board's staff, and additional information had been supplied to the Board for use in its further consideration of the matter, including information provided during an informal conference which representatives of the Bankers Association and the New York State Banking Department had with members of the Board on December 14, 1954.

Chairman Martin said that in view of the fact that there was a divergence of opinion in the Legal Division regarding the applicability

of section 32 to Bank Fiduciary Fund, he would like to have Mr. Vest and other members of the Legal Division express their views at this time.

Mr. Vest stated that, for reasons set out in his memorandum of November 3, 1954, he felt the prohibition of the statute was applicable to the proposed Fund. He then commented on the alternative courses of action open to the Board, as stated in that memorandum and also in his memorandum of December 16, 1954. These alternatives were: (1) the Board might take the position that the prohibition of section 32 is legally applicable, (2) the Board might feel justified, on the basis of all the facts presented, in resolving doubts in this matter in favor of the conclusion that the prohibition of the statute is not legally applicable, (3) the Board, taking the position that the statute would otherwise be legally applicable, might amend its Regulation R, Relationships with Dealers in Securities Under Section 32 of the Banking Act of 1933, so as to exempt from the prohibitions of the statute interlocking relationships with Bank Fiduciary Fund and with any similar organizations. Mr. Vest commented further that, while the legal question was a close one and there was a divergence of opinion in the Legal Division on the question, he had concluded there was not sufficient difference between the proposed Bank Fiduciary Fund and ordinary open-end investment companies to justify holding other than that the proposed Fund was subject to the statute. He also stated that in the event the Board interpreted the statute as not applying, such a decision might be taken as a precedent by other open-end

investment companies which would request similar rulings that they are not subject. Should the Board wish to amend Regulation R to make it clear that Bank Fiduciary Fund and other similar organizations were exempted from the prohibition of the statute regarding interlocking relationships, Mr. Vest felt that the problem would be to make an exemption in such a way as to avoid having it subject to abuse.

Chairman Martin then called on Mr. Chase, who stated that while the question was a very close one, he felt the statute did not apply to the proposed company. He noted that the prohibition of the statute applied to interlocking organizations "primarily engaged" in underwriting and distributing securities. While the ruling of the Board clearly applied the prohibitions of the statute to the ordinary open-end investment company, the proposed Fund was to be organized for a purpose other than selling shares: it was to be a unit not to deal with customers of banks but simply to provide a means for managing trust investments for a number of banks, on a basis similar to that of a common trust fund in a single bank. The proposed Fund would be so far different from an ordinary investment company, he said, as to make it clearly distinguishable from the ordinary investment company to which the statute had been applied in the past.

Mr. Shay stated that in his judgment the proposed Fund was almost completely different from other mutual companies which the Board had tried to reach under the statute. The situation of an ordinary open-end investment company which had a clear profit motive was not present in the

proposed Fund. On the other hand, it was to be a cooperative arrangement among banks to accomplish something which the banks might lawfully do in their own individual institutions but which could not satisfactorily be done by the banks individually becuase of the smallness of their size. In the circumstances, Mr. Shay felt the proposed Fund was not of the type that Congress had in mind when it enacted section 32 for the purpose of separating commercial and investment banking.

There followed a general discussion during which Governor Robertson stated that while he did not like the arrangement in principle, he would suggest that the Board adopt the second alternative contained in Mr. Vest's memorandum, namely, that on the basis of all of the facts presented, it resolve any doubts in the matter in favor of the conclusion that the prohibition of the statute was not legally applicable to the Fund. Governor Robertson stated that if this course were taken, he would suggest that a letter be written to set forth the reasons why the Board felt justified in taking such a position.

Governor Szymczak felt that the proposed Fund was so closely similar to open-end investment companies that he would be inclined to concur in the position taken by Mr. Vest that service of an officer or director of a State member bank on the board of directors of the Fund would be prohibited. He also questioned the need for establishment of such a Fund.

Chairman Martin stated that he did not have strong feelings on the matter. He felt the picture was rather confused and said that he would be

inclined to follow the second alternative, as suggested by Governor Robertson, partly on the grounds that the proposed Fund had been authorized by the legislature of the State of New York and, further, on the grounds that it was desirable under such circumstances to avoid taking action which would upset a plan arranged by the bankers of New York State, if that could be done in a way so as to be consistent with the law and with sound principles.

Governors Mills and Balderston concurred in Chairman Martin's views and added the comment that they would favor a letter along the lines suggested by Governor Robertson.

After some further discussion, it was agreed unanimously that a letter along the lines suggested, in a form satisfactory to Governor Robertson, should be sent to the Federal Reserve Bank of New York.

Secretary's Note: The letter sent to Mr. Phelan, Vice President, Federal Reserve Bank of New York, under date of December 22, 1954, in accordance with this action, was in the following form:

This is in further reference to your letter of October 6, 1954, and its enclosures, concerning whether section 32 of the Banking Act of 1933, as amended, would prohibit interlocking relationships between member banks and the proposed "Bank Fiduciary Fund", a mutual trust investment company of the kind authorized to be formed by Chapter 619 of the Laws of New York, approved April 10, 1954. As you know, this matter was the subject of correspondence with your Bank prior to the latter date, and was discussed at a meeting with the Board by representatives of the New York State Bankers Association and the New York State Banking Department on December 14, 1954.

Briefly, the New York statute authorizes the State Superintendent of Banks "to approve" the incorporation of the Fund as 'a medium for the common investment" of trust funds held by trust companies and banks in New York acting in fiduciary capacities, either alone or with individual co-fiduciaries, and restricts the ownership of the Fund's shares to such fiduciaries in their capacities as such. Among other things, the statute also authorizes the Superintendent of Banks "to regulate the conduct and management" of the Fund, limits the investments of the Fund to legal investments for fiduciaries under New York law, and provides certain other investment restrictions similar to those applicable in the case of a common trust fund operated by a single bank or trust company.

From the information presented, the Board understands that the Fund will receive only funds of trusts created or used "for bona fide fiduciary purposes"; that no shares of the Fund may be purchased by any institution which operates its own common trust fund; that the Fund ordinarily will permit the purchase and redemption of shares only on four days during the year on the basis of valuations prepared only once each quarter; and that the Fund will be required to submit to examination by, and make reports to, the Superintendent of Banks who, among other things, may remove directors or officers of the Fund for continued unsafe or unauthorized practices.

It is further understood that the Fund's board of directors will include one member from each of the State's nine banking districts and be composed only of trustees, directors, or officers of trust companies or banks with trust powers in New York; that no director or officer of the Fund will receive any compensation from the Fund; that the qualified bank to be selected by the Fund as its custodian and investment manager shall have no representation on the Fund's directorate; that the Fund will have no paid employees, will employ no sales personnel, undertake no active sales campaign, impose no sales or loading charges in connection with the issuance or sale of its shares, and have no connection with any other organization except banks; and that every attempt will be made to operate the Fund on a nonprofit basis as inexpensively as possible, to the end that the participating trusts may benefit to the fullest extent.

The Board also understands that the Fund will not engage in the issue, flotation, underwriting, public sale or distribution, at wholesale or retail, or through syndicate

participation, of any stocks, bonds or other similar securities, except the issue and sale of shares of its own stock.

On the basis of all of the information that has now been presented and the Board's understanding as indicated above, the Board is of the view that interlocking relationships between the Fund and member banks would not be prohibited by section 32.

You will understand, of course, that the Board's view, as expressed above, is based upon the facts and circumstances peculiar to this case and would not necessarily be applicable to other cases where the facts might be somewhat similar or to this case if there should be any material change in the facts.

There was presented a 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 30, enclosing a proposed bill "To improve operating procedures of the Federal land bank system, to facilitate elections to district farm credit boards, and for other purposes".

While the Board of Governors appreciates the opportunity offered to express its views regarding the proposal the subject-matter falls largely outside the field of the Board's special competence and it is not in a position to present constructive comments or suggestions with respect thereto.

Approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on December 16, 1954, were approved unanimously.

The meeting then adjourned.

Secretary