

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, December 29, 1954. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Thurston, Assistant to the Board
 Mr. Riefler, Assistant to the Chairman
 Mr. Thomas, Economic Adviser to the Board
 Mr. Vest, General Counsel
 Mr. Young, Director, Division of Research and Statistics
 Mr. Marget, Director, Division of International Finance
 Mr. Goodman, Assistant Director, Division of Examinations
 Mr. Solomon, Assistant General Counsel
 Mr. Dembitz, Assistant Director, Division of International Finance
 Mr. Tamagna, Chief, Financial Operations and Policy Section, Division of International Finance
 Mr. Neal, First Vice President, Federal Reserve Bank of Boston

In accordance with the understanding at the meeting on December 21, 1954, Mr. Neal, as Chairman of the Special Committee on Foreign Operations of American Banks, was present to discuss with the Board the report of the Committee which was submitted to Governor Szymczak under date of November 22, 1954. The Board had authorized the study, under the direction of Governor Szymczak, on February 4, 1954, and the terms of reference of the Committee's investigation were stated in a memorandum approved by the Board on February 24, 1954.

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In the course of introductory remarks, Governor Szymczak raised for consideration the question of the distribution of the report at this time. Mr. Neal and other members of the Special Committee suggested that before any distribution was made to others than the Federal Reserve Banks, certain material should be deleted because it might disclose data on individual banks obtained by the Committee in confidence. They felt that elimination of the material in question would not impair substantially an understanding of the conclusions and recommendations, or leave them without essential support. Accordingly, it was understood that Mr. Neal would advise Governor Szymczak of the material which, in the opinion of members of the Committee, should be deleted, following which the Board would consider whether to send copies on a confidential basis to such parties as the Federal Advisory Council, the Export-Import Bank of Washington, and the Federal bank supervisory agencies.

Mr. Neal then described the work done by the Special Committee and summarized the highlights of the report, placing particular emphasis on the recommendations contained in the report and the minority views on certain points which were expressed by Mr. Solomon and Mr. Goodman.

At the conclusion of Mr. Neal's comments, Governor Szymczak inquired of him as to what steps it would seem appropriate for the Board to take in its further consideration of the report and Mr. Neal responded by stating that the principal recommendations would require for their implementation (1) a revision of the Board's Regulation K, Banking Corporations Authorized to do Foreign Banking Business under the Terms of Section 25(a) of the Federal Reserve Act, in order to redefine the powers and limitations

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of Edge Act corporations and foreign banking corporations operating under agreement with the Board of Governors, and (2) legislative changes in section 25 of the Federal Reserve Act and related provisions of law with respect to foreign branches of American banks. Accordingly, he suggested that the Board might wish to appoint a committee of counsel to prepare drafts of a revised Regulation K and amendments to the law with the thought that such drafts would be reviewed by the Special Committee prior to consideration by the Board of Governors.

Governor Robertson added the suggestion that in addition to preparing a revision of Regulation K reflecting the majority recommendations of the Special Committee, such a committee of counsel might draft alternative provisions of a revised Regulation K reflecting the minority views contained in the report.

Referring to certain policy questions raised previously in the discussion, Chairman Martin said that if the Board did not deem it important to consider from a policy standpoint whether more foreign financing should be done by American banks, there was, of course, no need for going ahead with steps to implement the Special Committee's report. If, on the other hand, the members of the Board shared his feeling that an expansion of foreign financing by American banks was important enough to warrant full exploration of the possibilities, every effort should be made to work out procedures which would give as much encouragement as possible to the banking fraternity. He felt that the tone

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of any revised Regulation K would be especially important in indicating the attitude of the Board, and he went on to say that if the suggested drafting could be completed promptly, it might be possible for the Board to request any legislation which it deemed desirable during the next session of the Congress. Although he recognized that the requirements of the assignment made it difficult to fix a deadline for completion of the drafting, Chairman Martin suggested that it be given a priority status and that the target for completion of the work be about the middle of March, when Mr. Neal was expected to return from his forthcoming assignment to Iraq for the Foreign Operations Administration.

At the conclusion of a further discussion, it was agreed unanimously to appoint a Committee of Counsel (consisting of Mr. Solomon, counsel for the Federal Reserve Banks represented on the Special Committee - Boston, New York, Chicago, and San Francisco - and counsel for another Reserve Bank located in an area not directly concerned with foreign financing) to prepare drafts of (1) a revision of Regulation K reflecting the recommendations of the Committee, (2) alternative provisions reflecting the minority views contained in the Committee's report, and (3) amendments to section 25 of the Federal Reserve Act and related provisions of law designed to carry into effect the Special Committee's recommendations with respect to foreign branches of American banks. This action was taken with the understanding that (1) Governor Szymczak would contact the Presidents of the Federal Reserve Banks represented on the Special Committee and the President of another Reserve Bank selected by him with a view to having the necessary appointments to the Committee of Counsel made, (2) that the Committee of Counsel might seek the assistance of any other parties whose advice it desired, including representatives of the other bank supervisory agencies, (3) that the task of

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drafting should be given a priority status, and (4) that the target for completion of the work of the Committee of Counsel should be about the middle of March 1955.

Mr. Neal then withdrew from the meeting along with all of the members of the Board's staff who were present except Messrs. Carpenter, Sherman, Kenyon, Thurston, and Vest.

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:

Memoranda from appropriate individuals concerned recommending that the basic annual salaries of the following employees be increased in the amounts indicated, effective January 2, 1955:

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Office of the Secretary</u>		
Margaret J. Dougherty, Clerk		\$3,660	\$3,785
	<u>International Finance</u>		
Evelyn R. West, Clerk-Stenographer		3,110	3,255
	<u>Examinations</u>		
W. D. Smith, Review Examiner		10,200	10,400
A. N. Thompson, Federal Reserve Examiner		10,200	10,400
J. R. Radford, Jr., Review Examiner		9,160	9,360
Wm. S. Wait, Assistant Federal Reserve Examiner		5,940	6,140

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Salary increases, effective January 2, 1955 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Administrative Services</u>		
Richard Shaker, Guard		\$3,150	\$3,230
Reuben Rowzee, Chauffeur		2,990	3,070
Vera V. Dulin, Cafeteria Helper		2,700	2,770
Lettie Green, Charwoman		2,560	2,630

Approved unanimously.

Memorandum dated December 22, 1954, from Mr. Marget, Director, Division of International Finance, recommending that Reed J. Irvine, Economist in that Division, be granted permission to teach two evening classes at the Young Men's Christian Association beginning January 26, 1955.

Approved unanimously.

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

Reference is made to your letter of December 7, 1954, submitting the application of State Bank of Ontario, Ontario, New York, for permission to exercise fiduciary powers.

Following consideration of the information submitted by you in this connection and in view of your favorable recommendation, the Board of Governors of the Federal Reserve System grants the applicant permission, under the provisions of its condition of membership numbered 1, to exercise the fiduciary powers now or hereafter authorized under the terms of its charter and the laws of the State of New York.

You are requested to advise the State Bank of Ontario of the Board's action.

Approved unanimously.

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Letter to the Board of Directors, Manufacturers and Traders Trust Company, Buffalo, 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 Manufacturers and Traders Trust Company, Buffalo, New York, at 40-44 Falls Street, Niagara Falls, 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.

Letters to Mr. Diercks, Vice President, Federal Reserve Bank of Chicago, reading as follows:

Reference is made to your letter of December 20, 1954, regarding the request of the Union Bank of Michigan, Grand Rapids, Michigan, for an extension of time within which to establish a branch at 3238 South Division Avenue in the unincorporated village of Godwin Heights, Michigan.

After consideration of the information submitted and your favorable recommendation, the Board extends to April 2, 1955, the time within which the Union Bank of Michigan may establish the above branch, which was originally approved in the Board's letter of June 30, 1954.

Reference is made to your letter of December 16, 1954, submitting request of the Wisconsin State Bank, Delavan, Wisconsin, for permission to retire its \$25,000 locally owned preferred stock.

The Board has given consideration to the general condition of the bank and to your favorable recommendation and consents to the retirement of the \$25,000 preferred stock as proposed. Please advise the bank accordingly.

Approved unanimously.

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Letter to the Board of Directors, Greenfield State Bank, Greenfield, 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 Greenfield State Bank in the vicinity of the intersection of California and Chester Avenues, Bakersfield, California, provided (a) \$265,000 in additional capital funds is supplied, as required by the State Banking Department; 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 to the Comptroller of the Currency, Treasury Department, Washington, D. C., (Attention: Mr. W. M. Taylor, Deputy Comptroller of the Currency), reading as follows:

Reference is made to a letter from your office dated December 8, 1954, transmitting photostatic copies of an amended application and additional information with respect to the proposal to organize a national bank at Warwick, Virginia, and requesting a further recommendation as to the merits of the amended application.

Based upon information which you have submitted and that received from the Federal Reserve Bank of Richmond, it now appears that the proposed capital of the bank would be adequate. While the revised plan provides for a somewhat different distribution of the capital stock, effective control of the institution would directly or indirectly remain in the hands of stockholders of the First National Bank of Newport News and the original plan to eventually convert the proposed bank into a branch is unchanged. When this application was considered previously, there was doubt as to the need for the proposed additional banking facility in the area, and the additional information now available does not indicate any change in that situation. Moreover, we are informed that the establishment of the proposed bank would likely place the existing bank and its branch in a very unfavorable competitive position and might well make it impossible for the branch, which was recently established, to operate profitably. After reviewing the data you submitted and additional

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information available, the Board of Governors does not feel justified in recommending approval of the application to establish a national bank in Warwick, Virginia.

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.

There had been sent to the members of the Board copies of a letter dated December 23, 1954, from Mr. J. R. Killian, Jr., President of the Massachusetts Institute of Technology, Cambridge, Massachusetts, who was appointed recently by the Board as a Class C director of the Federal Reserve Bank of Boston for the unexpired portion of the term ending December 31, 1956. In his letter, Mr. Killian stated that he was a member of the President's Science Advisory Committee in the Office of Defense Mobilization, Chairman of the Scientific Advisory Panel of the Department of the Army, a member of the White House Conference Committee on Education, and a member of the Board of Visitors of the United States Naval Academy. He stated that he received no compensation for any of the assignments and that he assumed the holding of these offices was not inconsistent with the spirit of the Board's resolution of December 23, 1915, against the holding of public or political office by a director of a Federal Reserve Bank.

There had also been sent to the Board copies of a memorandum dated December 27, 1954, from Mr. Hackley, Assistant General Counsel, which stated that the offices in question, except for membership on the Board of Visitors of the Naval Academy, appeared to be of a purely advisory

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nature and in the same category as membership on the Advisory Committee to the Atomic Energy Commission, an office the holding of which the Board considered unobjectionable in another recent case. The memorandum also expressed the view that membership on the Board of Visitors of the Naval Academy (a statutory office which carries no compensation except reimbursement for traveling expenses) would not be inconsistent with the spirit of the Board's 1915 resolution.

Following a discussion, the Board concurred unanimously in the position taken in Mr. Hackley's memorandum and it was understood that Mr. Killian would be advised accordingly.

Reference was made to the following draft of letter to Mr. Kimball, Vice President of the Federal Reserve Bank of New York, which had been circulated among the members of the Board:

Thank you for your letter of December 20 concerning the contemplated publication, at an estimated cost of \$15,000 of a booklet on money and banking, for which no provision was made in your 1955 budget.

It is noted that the booklet, which is for the use of high school teachers and is sponsored by the Joint Council on Economic Education and the National Council for the Social Studies, was originally planned by the Committee on Education and Publications as a System document, but that in order to expedite the project the Committee recently asked the Federal Reserve Bank of New York to publish the booklet. It is further noted that your Bank feels the circumstances warrant incurring the expense, and that (other things being equal) this undertaking will result in exceeding your 1955 budget for "Printing, stationery and supplies" in the Bank Relations Function by about \$15,000.

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At the request of the Board, Mr. Thurston described the nature and purpose of the proposed booklet. He also stated that drafts of the booklet had been reviewed by the Board's staff and that, according to his understanding, all of the Federal Reserve Banks had had a part in its preparation.

Thereupon, the letter to Mr. Kimball was approved unanimously in the form set forth above.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on December 27, 1954, were approved unanimously.

All of the members of the staff then withdrew from the meeting and the Board went into executive session.

Thereafter, the Secretary was advised by the Chairman that during the executive session the Board approved unanimously increases in the amounts indicated in the annual salaries of the following members of the staff, effective January 2, 1955:

<u>Name and title</u>	<u>Annual salary</u>	
	<u>From</u>	<u>To</u>
George S. Sloan, Director, Division of Examinations	\$15,000	\$15,500
Kenneth A. Kenyon, Assistant Secretary	9,500	10,000
Howard H. Hackley, Assistant General Counsel	12,500	13,000
David B. Hexter, Assistant General Counsel	12,500	13,000

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Salary increases, effective January 2, 1955 (continued)

<u>Name and title</u>	<u>Annual Salary</u>	
	<u>From</u>	<u>To</u>
Henry Benner, Assistant Director, Division of Examinations	\$12,000	\$12,500
Glenn M. Goodman, Assistant Director, Division of Examinations	11,000	12,000
Robert C. Masters, Assistant Director, Division of Examinations	12,000	12,500
Arthur H. Lang, Chief Federal Reserve Examiner	12,000	12,500
Alfred K. Cherry, Legislative Counsel	12,000	13,000
Charles Molony, Special Assistant to the Board	11,300	12,500

The foregoing action was taken with the understanding that the 1955 budgets of the divisions and offices concerned would be increased in the amount of the salary increases.

Recently, Governor Mills made informal reference to the procedure which had been followed for some time of sending to the Advisory Board on Economic Growth and Stability, including the members of the Council of Economic Advisers, copies of the economic reviews prepared in the Board's Division of Research and Statistics for the meetings of the executive committee of the Federal Open Market Committee. At that time Governor

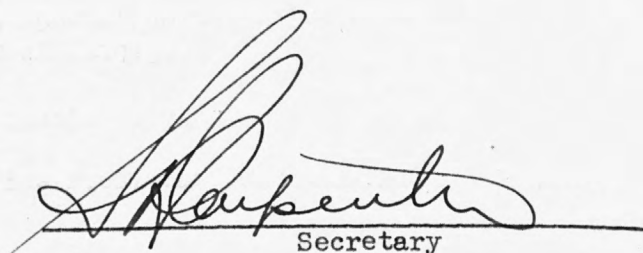
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Mills pointed out that the review prepared for the meeting of the executive committee on December 28 contained information which might be regarded as coming to the Board on a confidential basis and that it might be desirable to review the present arrangement and determine whether it should be changed in any way.

The Secretary was informed that during the executive session of this meeting it was unanimously agreed to continue to send the reviews, with the understanding, however, that the section of the reviews bearing the caption "Bank credit and reserves" would be eliminated. It was also understood that Governor Mills would inform Mr. Young, Director, Division of Research and Statistics, of this decision.

The meeting then adjourned.



Secretary