

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, December 30, 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. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Vest, General Counsel

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

In accordance with the request contained in your letter of December 16, 1954, the Board approves the designation of Emil C. Schuett as a special assistant examiner for the Federal Reserve Bank of Chicago.

Approved unanimously.

Letter to Mr. Peterson, Vice President, Federal Reserve Bank of St. Louis, reading as follows:

In accordance with the request contained in your letter of December 17, 1954, the Board approves the appointments of Edgar H. Crist as an examiner and Robert W. Page as an assistant examiner for the Federal Reserve Bank of St. Louis.

Please advise as to the dates upon which the appointments are made effective.

Approved unanimously.

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Letter to Mr. Deming, First Vice President, Federal Reserve Bank of St. Louis, reading as follows:

This refers to your letter of December 21, 1954, concerning a furniture replacement program at the Memphis Branch which will result in exceeding the 1955 budget submitted by the Branch by approximately \$23,500.

It is noted that it was originally planned to extend the replacement program over the next three or four years, and that, therefore, only about one-fourth of the estimated cost of the full program was included in the 1955 budget. It is further noted that, on the basis of bids recently received, it will be possible to save about \$6,500 if the whole program is completed during the forthcoming year.

In view of the circumstances mentioned in your letter, the Board will interpose no objection to the \$23,500 expenditure in excess of the 1955 budget for furniture and equipment purchases at the Memphis Branch.

Approved unanimously.

Letter to The Southern Ohio Savings Bank and Trust Company, Cincinnati, Ohio, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to the application for permission to exercise fiduciary powers made by you on behalf of The Southern Ohio National Bank of Cincinnati, Cincinnati, Ohio, the national bank into which The Southern Ohio Savings Bank and Trust Company, Cincinnati, Ohio, is to be converted, and grants such national bank authority, effective if and when it is authorized by the Comptroller of the Currency to commence business, to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, 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 Ohio. The exercise of all such rights shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

After the conversion of The Southern Ohio Savings Bank and Trust Company into The Southern Ohio National Bank of Cincinnati becomes effective and the Comptroller of the

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Currency authorizes the national bank to commence business, you are requested to have the board of directors of the national bank adopt a resolution ratifying your application for permission to exercise fiduciary powers, and a certified copy of the resolution so adopted should be forwarded to the Federal Reserve Bank of Cleveland for transmittal to the Board for its records. When a copy of such resolution has been received by the Board, a formal certificate covering the national bank's authority to exercise trust powers will be forwarded.

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

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

In view of the circumstances outlined in your letter of December 21, 1954, and the Reserve Bank's favorable recommendation, the Board of Governors extends until March 23, 1955, the time within which the Carolina Savings Bank, Charleston, South Carolina, may establish an in-town branch at 170 Calhoun Street, as approved by the Board under date of April 23, 1954.

Approved unanimously.

Letter to the Mercantile National Bank of Miami Beach, Miami Beach, 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, 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.

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A formal certificate indicating the fiduciary powers which the Mercantile National Bank of Miami Beach 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 the Board of Directors, California Bank, Los Angeles, 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 California Bank in the vicinity of the intersection of Center and Los Angeles Streets, Anaheim, California, provided 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 Board of Directors, Bank of Encino, Los Angeles, (Encino), 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 Encino at 17811-15 Chatsworth Street, in the Granada Hills Section of Los Angeles, California, provided (a) \$240,000 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 Presidents of all Federal Reserve Banks reading as follows:

It is desired that the regular annual reports of holding company affiliates on Form F. R. 437 be obtained for the year ending December 31, 1954, or for the holding company

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affiliate's latest fiscal year if it differs from the calendar year. Accordingly, please request each holding company affiliate which has its principal executive office in your district, and which holds a general voting permit, to file such a report in duplicate with your Bank not later than February 1, 1955. However, if the annual audit of any such holding company affiliate by public accountants has not been completed by that date, the holding company may, if it so desires, await the completion of the audit, provided that its report to the Board is filed as soon as practicable thereafter.

Please inform us as to the number of copies of Form F. R. 437 which your Bank will need, in excess of its present stock, in obtaining the reports of holding company affiliates in your district. The form has not been revised.

It is requested that the annual reports of the holding company affiliates for 1954 be obtained and processed by your Bank in the same manner as the previous annual reports of holding company affiliates. This contemplates that one copy of each report will be forwarded to the Board immediately after receipt by your Bank, to be followed as soon as practicable by such additional data and explanations as you may find it necessary to obtain from the respective holding company affiliates to complete or correct their reports. It is contemplated also that, when your Bank has analyzed and reviewed the reports of examination by the supervisory authorities of the banks and their affiliated organizations in each group, and has completed the review of each report filed by a holding company affiliate, a copy of the memorandum relating to the review will be forwarded to the Board, together with any recommendations, comments, or suggestions which you may have regarding each case.

Approved unanimously.

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

This refers to your letter of December 8, 1954, and enclosures, concerning whether the proposed payment by the First National Bank, Vandalia, Illinois, of the premium on a bond covering the local County Treasurer would constitute a violation of the Board's Regulation Q.

From the information submitted, it is understood that the bond in question is a fidelity bond; that the furnishing of the bond and the cost thereof is the responsibility of

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the County, rather than of the County Treasurer; and that the bank has no obligation with respect to the furnishing of the bond but proposes to pay the premium thereon for the purpose of acquiring all or a substantial portion of the deposits of County funds which would be held by the bank as demand deposits.

As indicated in the 1954 Federal Reserve Bulletin, p. 589, it has been the Board's general policy for many years not to pass upon the question whether particular practices involve a payment of interest in violation of Regulation Q, except after consideration of all the facts and circumstances of a specific case as developed by examinations of the member bank involved, but to rely instead upon the cooperation and good faith of member banks in adapting their practices to conform to the spirit and purpose of the law and the Board's regulation. This continues to be the Board's general policy. However, on the basis of the Board's understanding of the information submitted as indicated above, the proposed payment would appear to constitute compensation for the use of funds on deposit and, as such, would be an indirect payment of interest on demand deposits contrary to section 19 of the Federal Reserve Act and the Board's Regulation Q.

Approved unanimously, with a
copy to Mr. Peterson, Vice President,
Federal Reserve Bank of St. Louis.

There had been circulated to the members of the Board alternative drafts of two letters to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington, D. C., prepared in response to requests for the Board's views on two draft bills which had been submitted by the Farm Credit Administration. In each case, the drafts of reply which had been circulated to the Board were the same except that one of them would transmit as a matter of possible interest an informational memorandum prepared by the Board's staff on the subject of the proposed bills.

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Following a discussion during which the members of the Board indicated that they felt it would not be necessary to send the memorandum which had been prepared by the staff, unanimous approval was given to letters to Mr. Jones reading as follows:

This refers to your communication of December 9, 1954, requesting an expression of views on a draft bill (submitted by the Farm Credit Administration), "To provide for the retirement of Government capital in the Production Credit Corporations, and for other purposes." The bill, among other things, sets out the classes of stock which may be issued by Production Credit Corporations and the conditions under which certain stock may be retired. Other provisions are concerned with the ultimate assumption of responsibility for payment of the expenses of Production Credit Corporations by production credit associations. It is understood that the purpose of the bill is to encourage and facilitate increased borrower participation in the management, control and ultimate ownership of a permanent system of agricultural credit made available to institutions operating under the supervision of the Farm Credit Administration.

It appears that the bill deals mainly with the organization of the financial structure of the agencies operating under the Farm Credit Administration and, in general, would not directly affect the Board's major responsibilities. While the Board appreciates the opportunity to state its views, in the circumstances it has not attempted to offer extensive comments or to make a thorough appraisal of the advantages or disadvantages of the bill.

This refers to your communication of December 9, 1954, requesting an expression of views on a draft bill (submitted by the Farm Credit Administration), "To amend the provisions of the Farm Credit Act of 1933 relating to production credit associations." The bill deals principally with the financial organization of the associations including conditions under which dividends may be paid, the retirement of certain stock now held by the Government, as well as other matters related to the stock acquisition and loans. It is understood the purpose of the bill is to improve operations of the production credit associations in ways which will encourage further investments of private capital in the associations and thus

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permit retirement of all of the Government capital.

It appears that the bill deals mainly with the technical aspects of the operations of production credit associations and, in general, would not directly affect the Board's major responsibilities. While the Board appreciates the opportunity to state its views, in the circumstances it has not attempted to offer extensive comments or to make a thorough appraisal of the advantages or disadvantages of the bill.

It was stated that upon receipt of a letter dated December 29, 1954, from Mr. L. A. Jennings, Deputy Comptroller of the Currency, who advised that on January 3, 1955, a call would be made upon all national banks for reports of condition as of the close of business December 31, 1954, the usual telegram was sent yesterday to the Presidents of all Federal Reserve Banks calling for comparable reports by State member banks, on forms furnished with the Board's letter of December 10, 1954.

The action taken in sending the telegram to the Federal Reserve Banks was approved and ratified by unanimous vote.

Chairman Martin referred to a memorandum dated December 22, 1954, from the Division of Personnel Administration submitting to the Board for consideration a draft of a secretarial handbook proposed to be printed and distributed to members of the Board's staff in January 1955 to replace the stenographer's manual which was last revised in 1942.

There was a brief discussion of the matter and no objection was interposed to the printing and distribution of the proposed handbook. It was understood that any member of the Board who had comments or suggestions with respect to the handbook would advise the Division of Personnel Administration or, if he desired, bring the matter to the attention of the Board for further consideration.

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At this point Mr. Solomon, Assistant General Counsel, entered the room.

With reference to the action taken by the Board yesterday concerning the report of the Special Committee on Foreign Operations of American Banks, Governor Szymczak reported that later in the day, following discussion with Mr. Vest and Mr. Solomon, it was decided to request the Federal Reserve Bank of Minneapolis to have its counsel join the Committee of Counsel which would do the drafting work contemplated by the Board's action. Accordingly, he said, telephone calls were placed to the Presidents of the Federal Reserve Banks of Boston, New York, Chicago, Minneapolis, and San Francisco, each of whom agreed to have counsel for his Bank serve on the Committee. After stating that confirming letters to the Presidents of the Banks concerned had been prepared, Governor Szymczak suggested that Mr. Solomon be designated Chairman of the Committee of Counsel.

This suggestion was approved unanimously.

Referring to the report of the Special Committee and the recommendations contained therein, Governor Mills commented concerning the comparatively minor role of the foreign departments of American banks in the over-all organization of those institutions. He went on to say that in his opinion the Board should be very careful about promulgating changes in its Regulation K, Banking Corporations Authorized to do Foreign Banking Business Under the Terms of Section 25(a) of the Federal Reserve Act,

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which would authorize American banks, through Edge Act corporations that they might establish, to engage in activities that conceivably might contribute to unsound banking practices or to conduct activities in the foreign field which are prohibited in their domestic operations.

Governor Robertson said that his tentative views were along the lines of those expressed by Governor Mills, that his concurrence in the suggestion yesterday regarding the work to be done by the Committee of Counsel was prompted by the thought that it would be helpful to the Board to see exactly what changes in the statutes and in Regulation K would follow from the Special Committee's recommendations, and that the Board should avoid being placed in a position at this stage where it might be under obligation to approve the Committee's recommendations.

Governor Szymczak stated that the whole purpose of the Special Committee's investigation was to review the existing situation and place before the Board, for its consideration, arguments on both sides of the questions concerned. He emphasized that it was not his intent, or that of the Special Committee, to urge upon the Board any particular course of action.

Chairman Martin said that, in his view, the important thing was that the Board was giving attention to the problems in this field and informing itself as fully as possible concerning the issues.

With reference to the discussion at the meeting yesterday concerning distribution of the report of the Special Committee outside the Federal

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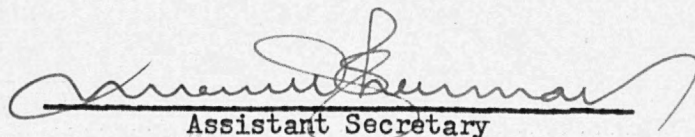
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Reserve System, Governor Szymczak stated that he had received a memorandum dated December 29 from the Committee Chairman, Mr. Neal, suggesting removal of certain portions of the report before any such distribution was made because of the confidential nature of the data contained therein. He raised the question whether the Board wished to transmit copies of the report, with the several parts deleted, to a selected list of individuals for comment, which list might include the Secretary of the Federal Advisory Council, the heads of the other Federal bank supervisory agencies, and the head of the Export-Import Bank of Washington.

This matter was discussed and the view was expressed that there would be no objection to such limited distribution as Governor Szymczak felt to be desirable, provided the letters of transmittal indicated that the Board had taken no action with respect to any of the recommendations contained in the report and that the copies were being sent in order that the Board might obtain any suggestions or comments.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on December 29, 1954, were approved unanimously.

The meeting then adjourned.


Assistant Secretary