

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, February 16, 1955. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Vest, General Counsel
Mr. Cherry, Legislative Counsel
Mr. Fauver, Special Assistant to the Board

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 for the signature of the Chairman to Major General Lewis B. Hershey, Chairman, Government Division, Blood Donor Recruitment, District of Columbia Chapter, American Red Cross, Washington, D. C., reading as follows:

In response to your letter of January 25, 1955, Mr. Rodney H. Van Devanter, Administrative Assistant, Division of Personnel Administration, has been designated as the Board's representative for the Red Cross blood program. He will be glad to serve as Chairman of the program for our organization.

We are always happy to participate in this very deserving cause.

Approved unanimously.

Letter to Mr. Liles, Vice President and Cashier, Federal Reserve Bank of Atlanta, reading as follows:

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In view of the circumstances set forth in your letter of January 20, 1955, to Mr. Edwin J. Johnson, Director of the Division of Personnel Administration, the Board of Governors approves the payment of salary to Miss Fay S. Koren, Treasury Tax and Loan Collateral Clerk, Grade 7, at the rate of \$1,896 per annum for the period May 1, 1954, to her return to duty, or September 24, 1955, whichever is earlier.

Approved unanimously.

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

In accordance with the request contained in your letter of February 7, 1955, the Board approves the appointment of Theodore Andre Mueller as an assistant examiner for the Federal Reserve Bank of Chicago. Please advise as to the date upon which the appointment is made effective.

Approved unanimously.

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

The reports relative to the number of officers and employees selected by the Federal Reserve Banks to attend the various banking schools during the summer sessions of 1955 have now been received.

From the information submitted, it appears that the total number of officers and employees selected to attend these schools conforms to the policy as outlined in the Board's letter on this subject, S-1489, dated February 26, 1953.

Approved unanimously.

Letter to the Board of Directors, Bankers Trust Company, New York, New York, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors

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approves the establishment of a branch by Bankers Trust Company, New York, New York, at 415 Madison Avenue, New York, 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. Armistead, Vice President, Federal Reserve Bank of Richmond, reading as follows:

Reference is made to your letter of January 28, 1955, enclosing a certified copy of a resolution adopted by the Board of Directors of Richmond County Bank, Rockingham, North Carolina, signifying its intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal. Also enclosed was a letter from the president of the bank, setting forth the reasons for withdrawal. It is noted that the bank is applying to the Federal Deposit Insurance Corporation for continuance of insurance of its deposits.

In accordance with the bank's request, the Board of Governors waives the requirement of six months' notice of withdrawal. Accordingly, upon surrender of the Federal Reserve Bank stock issued to the bank, you are authorized to cancel such stock and make appropriate refund thereon. Under the provisions of section 10(c) of Regulation H, as amended effective September 1, 1952, the bank may accomplish termination of its membership at any time within eight months after notice of intention to withdraw is given. Please advise when cancellation is effected and refund is made.

The certificate of membership should be returned to the Board and the State banking authorities advised of the bank's proposed withdrawal from membership, together with the date such withdrawal becomes effective.

Approved unanimously.

Letter to The Hamilton National Bank of Johnson City, Johnson City, Tennessee, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your application for

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fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee and registrar of stocks and bonds of the Volunteer Natural Gas Company, Johnson City, Tennessee, the exercise of such authority 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 certificate covering such authorization is enclosed.

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

Letter to Mr. James D. Williams, Jr., Secretary, Commission on Application of Federal Laws to the Virgin Islands, c/o Mr. A. M. Edwards, Associate Solicitor, Department of the Interior, Washington, D. C., reading as follows:

This is with further reference to Mr. Jameson's letter of January 24, 1955 addressed to Chairman Martin asking for this Board's views as to the applicability of Federal statutes to the Virgin Islands.

As you undoubtedly know, the statutes with which the Board of Governors is primarily concerned are those dealing with banking. There are two commercial banks in the Virgin Islands, in addition to a savings bank. Both the commercial banks are insured by the Federal Deposit Insurance Corporation. One of them is a national bank. However, none of the three is a member bank of the Federal Reserve System. The national bank was chartered by the Comptroller of the Currency, and questions relating to the statutes applicable to it would be primarily his concern. In the circumstances it is assumed that you will wish to communicate both with the Comptroller of the Currency and with the Federal Deposit Insurance Corporation.

Under section 9 of the Federal Reserve Act (12 U.S.C. § 321), any bank in the Virgin Islands organized under the laws of the United States could become a member of the Federal Reserve System if it applied for membership and was accepted. In the event it became a member, certain provisions of the Federal Reserve Act would be

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applicable to it, in addition to the statutes otherwise applicable. However, since none of the banks in the Virgin Islands is a member bank, the Board has had no experience upon which to base suggestions as to what Federal statutes relating to banking should or should not be applicable.

It may be that there are problems respecting the subject matter of Mr. Jameson's letter of which the Board is not aware and as to which your Commission thinks the Board may be able to be of assistance. In that event, the Board will be glad to give any help it can.

Approved unanimously.

There were presented requests from Messrs. Vest and Hackley, General Counsel and Assistant General Counsel, respectively, for authority to travel to Atlanta, Georgia, during the period March 29-April 2, 1955, to attend a meeting of the Subcommittee of Counsel of the Insurance Committee of the Federal Reserve Banks.

Approved unanimously.

Chairman Martin stated that Mr. Riefler, Assistant to the Chairman, had received an invitation to appear on a panel on March 31, 1955, in connection with a regional clinic being held by the Mortgage Bankers Association of America in Birmingham, Alabama, on March 31 and April 1, 1955. He suggested that Mr. Riefler be authorized to accept the invitation if he so desired.

This suggestion was approved unanimously.

There had been sent to the members of the Board copies of a final draft of the program for the meeting of new Federal Reserve Bank and

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branch directors on February 24, 1955, along with copies of suggested letters to the directors who had indicated that they were going to attend and to those directors who would not be able to be present.

During a discussion of the program, Chairman Martin suggested that the former Federal Reserve Bank directors now serving with the Government in Washington be invited to the luncheon on February 24 and there was agreement that invitations should be extended to those persons. With respect to the letters to be sent to the directors who had advised that they could not be present at the meeting, Governor Vardaman suggested that language be added to the effect that the Board would be glad to have those directors visit its offices at any other time that they might be in the city, and there was agreement with this suggestion.

At the conclusion of the discussion, the program and the letters to the directors were approved unanimously, with the understanding that the letter to the directors who could not be present on February 24 would be amended in the manner suggested.

Prior to this meeting Mr. Riefler, as Secretary of the Federal Open Market Committee, sent to the members of the Board copies of a revised draft of the record of Committee policy actions during 1954, prepared for inclusion in the appendix to the Board of Governor's Annual Report for 1954. Pursuant to the understanding at the meeting on February 4, 1955, the draft had been resubmitted to the members of the Federal Open Market Committee and the remaining Presidents of the Federal Reserve Banks and, in the form in which the record was now presented to

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the Board, there were marked on it certain further changes of a minor nature that had been suggested.

Following a discussion, the policy record was approved unanimously for inclusion in the appendix to the Board's 1954 Annual Report in the form submitted, with the understanding that if any member of the Board should have further comments, he might bring the matter back to the Board.

Mr. Carpenter referred to the Board's action on January 28, 1955, in transmitting to the Bureau of the Budget for clearance, in accordance with the usual procedure, a proposed letter to Senator Fulbright, Chairman of the Committee on Banking and Currency, reporting on Bill S. 256, "to eliminate cumulative voting of shares of stock in the election of directors of national banking associations unless provided for in the article of association." He stated that on February 14 a representative of the Budget Bureau called on the telephone and, after commenting that the Bureau had interposed no objection to the position taken by the Board in 1954 in a report on a similar bill, said that there would be no objection to the proposed report on S. 256, but that he wanted to call attention to the fact that the Board's view was contrary to that of any other agency, both the Treasury Department and the Federal Deposit Insurance Corporation, particularly the Treasury, having taken the opposite view.

There was a discussion of the matter and the members of the Board agreed that the position stated in the proposed report was the one which should be presented to the Senate Banking and Currency Committee.

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Accordingly, unanimous approval was given to a letter to Senator Fulbright reading as follows, this being the same letter, except for the addition of the final paragraph, as was sent to the Bureau of the Budget for clearance on January 28, 1955:

This is in response to your Committee's request, dated January 14, 1955, for the opinion of the Board of Governors as to the merits of S. 256, a bill "To eliminate cumulative voting of shares of stock in the election of directors of national banking associations unless provided for in the article of association."

Cumulative voting for directors of corporations, which is provided for in the Constitutions of a number of States and by statute in other States, is based upon the principle that minority representation, or proportional representation, on boards of directors is desirable. Through cumulative voting, minority shareholders may be enabled to elect one or more directors, whereas in the absence of cumulative voting the majority shareholders are in a position to elect all the directors, so that a substantial minority which might not be in agreement with the policies of the majority could be effectively prevented from presenting its views and otherwise participating in the direction of the corporation's affairs.

Provision for cumulative voting by shareholders of national banks, which is contained in section 5144 of the Revised Statutes, has been a part of the national banking laws for over 20 years. While S. 256 would not directly repeal this provision, it would make it operative only if the articles of association provide for cumulative voting and, since the inclusion of such a provision in the articles would, of course, be determined by the majority shareholders, the bill would deprive the provision of the statute of any real significance as a means of insuring minority representation on the board of directors of a national bank.

Unlike the Comptroller of the Currency, the Board of Governors has not had direct supervision of the operation of this statute. However, it is the Board's opinion that the principle underlying cumulative voting -- namely, permitting substantial minority groups of shareholders to be represented on the board of directors -- is a sound one. Accordingly, the Board feels that the statute should not be amended in the manner proposed by S. 256 unless it is established to the satisfaction of your Committee and the Congress

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that results in actual operation have been so unfavorable that enactment of this bill is clearly advisable.

The Bureau of the Budget has advised that it has no objection to the submission of this report.

Mr. Thurston had sent to the members of the Board, prior to this meeting, copies of a memorandum containing biographical information with respect to Mr. Robert C. Sprague, Chairman of the Board and Treasurer of the Sprague Electric Company, North Adams, Massachusetts, who was suggested by Mr. Hodgkinson, Chairman of the Federal Reserve Bank of Boston, for appointment as Class C director of the Boston Bank for the unexpired portion of the three-year term ending December 31, 1957, and for designation as Deputy Chairman of the Bank for the remainder of the year 1955.

Following a discussion, Chairman Martin was authorized by unanimous vote to request Chairman Hodgkinson to ascertain whether Mr. Sprague would accept the appointment and designation, with the understanding that if he would accept, the appointment and the designation would be made.

Secretary's Note: It having been ascertained that Mr. Sprague would accept, the following telegram was sent to him on February 17, 1955:

Board of Governors of Federal Reserve System has appointed you Class C director Federal Reserve Bank of Boston for unexpired portion of three-year term ending December 31, 1957, and Deputy Chairman at Bank for unexpired portion of year 1955. Your acceptance by collect telegram would be appreciated.

Assume you are not an officer, director, employee or stockholder of any bank and do not hold political or public office. Please confirm this as it has bearing on your eligibility for appointment.

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Chairman Martin suggested that at the next several meetings of the Board there be discussions of the various factors which should be taken into account by the Board in determining its monetary and credit policies, and that this series of discussions begin at tomorrow's meeting with reviews of domestic and international economic and financial developments by the Division of Research and Statistics and the Division of International Finance, respectively.

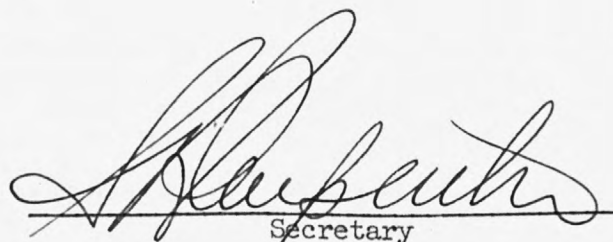
There was agreement with these suggestions.

At the request of the Board, Mr. Cherry then commented on certain legislative matters, including the forthcoming hearings by the House Banking and Currency Committee on bank holding company legislation and on bank mergers, by the Senate Banking and Currency Committee on stock market activity, and by a Senate subcommittee on Bill S. 256, referred to previously at this meeting.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 14, 1955, were approved unanimously.

Minutes of the meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council held on February 15, 1955, were approved unanimously.

The meeting then adjourned.



Secretary