

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, February 23, 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. 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. Solomon, Assistant General Counsel
 Mr. Koch, Assistant Director, Division of Research and Statistics
 Mr. Cherry, Legislative 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. Wiltse, Vice President, Federal Reserve Bank of New York, reading as follows:

In accordance with the request contained in your letter of February 11, 1955, the Board approves the appointment of Stephen T. Lederleitner as an assistant examiner for the Federal Reserve Bank of New York. Please advise as to the date upon which the appointment is made effective.

Approved unanimously.

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

Reurlet February 14, 1955, Board approves appointment of John Keith Fry as an assistant examiner for

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the Federal Reserve Bank of Kansas City. Please advise date upon which the appointment is made effective and as to salary rate.

Approved unanimously.

Letter to the Board of Directors, Occidental Savings & Commercial Bank, Los Angeles (North Hollywood), 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 the Occidental Savings & Commercial Bank, Los Angeles (North Hollywood), California, in the vicinity of the intersection of Saticoy Street and Balboa Boulevard in the West Van Nuys section of Los Angeles, California, provided (a) \$150,000 in new capital funds is supplied as required by the State Banking Department; (b) the branch is established within one year from the date of this letter; and (c) plans to establish a branch in the Woodland Hills section of Los Angeles, California, are abandoned.

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

Reference was made to a memorandum from Mr. Solomon dated February 11, 1955, regarding an informal inquiry made of the Federal Reserve Bank of New York by representatives of a New York City bank and underwriters for the current flotation of General Motors Corporation common stock concerning the possible applicability of the preferential 75 per cent loan value under the "special subscription" provision of Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, in the case of loans by banks to finance the purchase of stock from an underwriter

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acquiring such stock by exercise of the stockholders' rights to subscribe thereto. According to the memorandum, copies of which had been sent to the members of the Board, the representatives of the New York Reserve Bank responded to the inquiry by stating that if the underwriters or the bank desired an official opinion, they should set forth the facts in a letter. At the time Mr. Solomon wrote his memorandum, it appeared that the question would not be presented formally, but under date of February 16, 1955, an officer of the Guaranty Trust Company of New York wrote to the Federal Reserve Bank of New York suggesting an amendment to Regulation U (without specifically mentioning the General Motors stock issue). On February 17, Reserve Bank Vice President Rouse sent a copy of the letter to the Board and stated that the Reserve Bank's views would be transmitted at an early date.

At the request of the Board, Mr. Solomon reviewed the situation which prompted the inquiry and suggested amendment and discussed the history and effect of the pertinent provision of Regulation U. In response to questions, he expressed the opinion that it would be difficult to handle the matter by an interpretation of the regulation and that, as suggested in the letter from the Guaranty Trust Company, a amendment to section 3(p) of Regulation U seemed to be necessary if the Board should determine that the present language of the resolution should be liberalized. In further comments Mr. Solomon said that time had not permitted the Board's staff to formulate a recommendation regarding the matter, and that it probably would be desirable to have an

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exchange of staff views with the Securities and Exchange Commission, particularly because somewhat related provisions of the Securities Exchange Act and the rules of the Commission were involved.

Following further discussion, there was agreement with Chairman Martin's suggestion that a decision on the matter be deferred until after receipt of recommendations from the Federal Reserve Bank of New York and the Board's staff. In this connection it was requested that the staff's recommendation be accompanied by a summary of somewhat similar problems acted upon by the Board in 1953 so that the question now presented might be considered against the background of the previous actions.

Governor Mills withdrew from the meeting at this point to keep another engagement.

The next item to be considered was a memorandum from Mr. Solomon dated February 16, 1955, concerning a suggestion by the New York Stock Exchange that section 3(b) of Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, which provides that when a transaction requiring margin under the regulation is executed the broker must obtain the margin "as promptly as possible and in any event before the expiration of three full business days following the date of such transaction", be amended so as to extend the maximum period for obtaining margin to four full business days. The memorandum, copies of which had been sent to the members of the Board, stated that because of administrative difficulties the Stock Exchange

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had been forced to grant extensions of time in numerous cases under the "exceptional circumstances" provision of the regulation, that the amendment would ease this administrative task, and that customer-broker relationships reportedly would be improved. The formal request for the amendment was contained in a letter addressed to Chairman Martin under date of September 15, 1954, by Mr. G. Keith Funston, President of the New York Stock Exchange; the matter was referred to the Federal Reserve Bank of New York for its views; the Bank wrote to Mr. Funston for additional information on October 21; but for an unexplained reason Mr. Funston's reply, dated November 24, did not reach the Reserve Bank and a duplicate was not received until January 3, 1955. In a letter to Chairman Martin dated January 21, President Sproul of the New York Reserve Bank recommended favorable consideration of the request but suggested that "this is not, perhaps, the best time to have to consider such an amendment." Mr. Solomon's memorandum likewise regarded the amendment as apparently justified on the grounds of administrative convenience but suggested that its adoption in the present setting of stock market credit and activity might be misunderstood since, although essentially technical in character, it would be in the direction of relaxation.

Governor Szymczak stated that the suggestion seemed to be a practical one which in his opinion merited favorable consideration, the only question being that of timing. Governor Vardaman expressed a similar view and went on to say that if the Board did not act at this meeting

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but wished to act later at a time when he was not present, he would have no objection.

After some further discussion, during which it was brought out that the situation, although posing some administrative difficulties, was one which had existed for a number of years and that in the circumstances no immediate action seemed to be necessary, Chairman Martin suggested that further consideration be deferred until a time when Governor Mills was present and could participate in the discussion.

This suggestion was approved
unanimously.

At this point Mr. Solomon withdrew and Messrs. Leonard, Director, Division of Bank Operations, Sloan, Director, Division of Examinations, and Hackley, Assistant General Counsel, entered the room.

At the meeting on February 2, 1955, the staff was requested to draft a letter to the Federal Reserve Bank of Chicago relating to the propriety under Regulation A, Advances and Discounts by Federal Reserve Banks, which became effective February 15, 1955, of borrowing on the part of member banks in the State of Illinois for the purpose of meeting deposit losses associated with avoidance by their depositors of the April 1 personal property tax. In connection with draft revisions of Regulation A which were sent to the Reserve Banks for comment during 1954, letters from President Young of the Federal Reserve Bank of Chicago indicated that the Chicago Bank interpreted the general principles of the

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revised regulation as permitting latitude, under the "unusual situations" provision, for making credit available to member banks to anticipate the withdrawal of deposits during the month of March, which might include borrowing for the purpose of carrying Treasury bills for sale to depositors immediately prior to the first of April.

The requested draft of letter to the Chicago Reserve Bank, copies of which had been sent to the members of the Board along with a memorandum from Messrs. Young, Koch, and Hackley dated February 18, 1955, took the position that according to the Board's interpretation of the general principles of the revised Regulation A, member banks would be permitted to borrow from the Reserve Bank for short periods to meet part of the deposit drain itself but would not be permitted to borrow for long periods in order to purchase and carry Treasury bills in anticipation of the late March deposit shift.

Following a review of the situation by Mr. Young, during which he stated that no communication on the matter had been sent to the Chicago Reserve Bank at the time President Young's letters were received because it was not known in exactly what form the revised Regulation A would finally be adopted, Mr. Leonard presented data concerning borrowing by Illinois banks from the Reserve Bank during the current year up to February 15. From these statistics it appeared that only one Chicago Bank had been borrowing on a longer basis than 15 days. This bank's borrowing had been rather regular, rather large in amount, but not cumulative. Another Chicago bank was borrowing in the earlier part of the year on one-day notes but had

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not borrowed since January 26. Other borrowing by Chicago and out-of-city banks was scattered and the aggregate of such borrowing was not particularly large. Except in one instance the advances all were made on the collateral of Treasury bills. Mr. Koch added that bill holdings by the principal Chicago banks were not large and that they did not rise with the issue of Treasury bills maturing on April 6 except at the same bank which had been borrowing on a longer than 15-day basis. In response to an inquiry as to why the one bank in question would request advances on the longer-term basis, Mr. Riefler suggested that it might want to establish a precedent that credit on such a basis was available for the purpose of purchasing Treasury bills in anticipation of the April 1 tax date, and that such a procedure also afforded protection against an increase in the discount rate.

The proposed letter to the Federal Reserve Bank of Chicago was then discussed and there was agreement that if it were sent, certain changes, not directly related to the basic conclusions, should be made. With regard to the general position taken in the letter, it appeared that the members of the Board, with the exception of Governor Vardaman, concurred in the view that borrowing over an extended period to acquire Treasury bills for later resale to a bank's customers as an accommodation would be contrary to the spirit of the general principles of the revised Regulation A. Governor Vardaman's tentative view was that the accumulation of such bills for this purpose, and borrowing by the member bank to carry the

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bills outside its normal portfolio, might be considered a justifiable procedure which the bank followed to provide service consistent with an unusual local situation.

Governor Balderston referred to the one-day borrowings of the second bank mentioned by Mr. Leonard and expressed the view that this procedure, along with the cessation of borrowing after January 26, suggested that the bank had found a way to meet the situation out of its own resources, at least to a considerable extent. He inquired whether the other members of the Board felt that borrowing of the kind done by this institution was consistent with the spirit of the general principles. There ensued some discussion as to whether recurrent borrowing for short periods might be deemed to be in harmony with the general principles, and reference was made in this connection to the analysis customarily made by Federal Reserve Banks in cases where there were persistent requests for accommodation or where renewals were sought.

No conclusions being reached as a result of the discussion at this session, there was agreement with Chairman Martin's suggestion that the matter be held over for further consideration this afternoon when Governor Mills could be present.

The meeting then recessed and reconvened at 2:15 p.m. with the same attendance as at the end of the morning session except that Governor Mills was present and Mr. Riefler was not present.

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Reference was made to a memorandum from Governor Mills dated February 18, 1955, copies of which had been sent to the other members of the Board, suggesting the desirability of occasional meetings of the Federal Reserve Bank discount officers. The suggestion was one which grew out of the Report on the Discount Mechanism, issued by the System Committee on the Discount and Discount Rate Mechanism on March 12, 1954, and the memorandum indicated that it might be desirable to hold the first such meeting in the near future in view of the adoption of the revised Regulation A and the prospect of an increase in member bank borrowing from the low levels which prevailed during 1954. The memorandum proposed that the first meeting might be organized by the directors of the Board's Divisions of Bank Operations and Examinations, that the question of a standing System committee of discount officers might be taken up at the meeting, and that the plan for organization of such a committee could then be referred to the Board and the Presidents' Conference.

In commenting on the memorandum, Governor Mills said that two matters which it seemed advisable to take up at such a meeting of the discount officers were the uniformity of discount practices at the various Federal Reserve Banks and the rules of administration with regard to continuous borrowing. After stating reasons why he felt that the first meeting should be held in the near future, including the fact that current System credit policy in relation to trends in the economy

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might result in increased borrowing later this year, Governor Mills went on to suggest that at first the Board might withhold its views regarding discount administration and that System practices might be developed from consideration of the views expressed by the discount officers.

In response to a question, Governor Mills said that he had in mind that representation from the Federal Reserve Banks at such a meeting would consist of the officers upon whom the directors and the presidents of the Reserve Banks rely for general guidance in the administration of the discount function.

Chairman Martin then suggested that steps be taken under the direction of Governor Mills toward convening an initial meeting of Reserve Bank discount officers in the near future, with the understanding that the plans would be along the lines suggested by Governor Mills in his memorandum and at this meeting.

This suggestion was approved unanimously.

Discussion then reverted to the problem of borrowing by Illinois banks which had been considered by the Board this morning. Chairman Martin stated that the absence of a reply to the letters which the Federal Reserve Bank of Chicago wrote in 1954 might well have led the Bank to believe that the Board concurred in its interpretation as to the propriety of such borrowing under the general principles of the revised Regulation A. He suggested, therefore, that in lieu of sending any letter at

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this time giving the Board's views, it might be desirable to advise President Young that the Board had questions in this connection which it would like to discuss with him in the near future when he was in Washington. He also suggested that President Young be invited to have Vice President Olson with him on the occasion of such a discussion if he so desired.

There being agreement with the procedure suggested by Chairman Martin, unanimous approval was given to a letter to President Young reading as follows:

In your letters to Chairman Martin of August 4 and November 9, 1954, commenting on the draft revision of a revised Regulation A, you made reference to the problem of borrowing by Illinois banks to meet the deposit drain experienced around the April 1 Illinois personal property tax date. In view of the recent adoption of a revised Regulation A, it would appear desirable for you and the members of the Board to discuss this matter sometime in the near future when you are in Washington. You may care to have Mr. Olson also present at this discussion.

Messrs. Leonard and Koch then withdrew from the meeting and Messrs. Hostrup, Assistant Director, and Thompson, Federal Reserve Examiner, Division of Examinations, entered the room along with Mr. Fauver, Special Assistant to the Board.

There had been sent to the members of the Board copies of a draft of statement on bank holding company legislation to be made by Chairman Martin before the House Banking and Currency Committee on February 28, 1955. The draft was reviewed and several suggestions were made for revisions.

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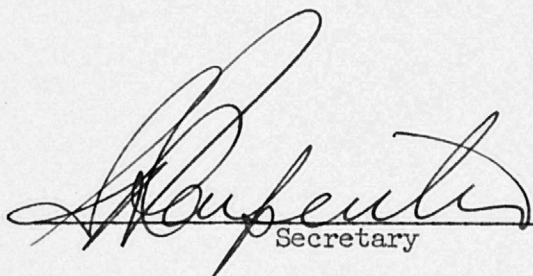
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At the conclusion of the discussion, it was understood that the statement would be presented in a form which took into account the changes agreed upon at this meeting.

At the request of the Board, Mr. Fauver then reviewed arrangements for the meeting of newly-appointed Federal Reserve Bank and branch directors to be held tomorrow, and there was a general discussion of the program.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 21, 1955, were approved unanimously.

The meeting then adjourned.


Secretary