

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, April 15, 1955. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Thurston, Assistant to the Board
 Mr. Riefler, Assistant to the Chairman
 Mr. Vest, General Counsel
 Mr. Sloan, Director, Division of Examinations
 Mr. Johnson, Controller, and Director, Division of Personnel Administration
 Mr. Horbett, Assistant Director, Division of Bank Operations
 Mr. Cherry, Legislative Counsel

The following matters, which had been circulated to 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 April 7, 1955, the Board approves the designation of David W. Bouton as a special assistant examiner for the Federal Reserve Bank of New York.

Approved unanimously.

Letter to Mr. Morrill, Assistant Vice President, Federal Reserve Bank of San Francisco, reading as follows:

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In accordance with the request contained in your letter of April 6, 1955, the authorizations heretofore given to your bank to designate W. G. Johnston and G. F. Turman, Jr. as special assistant examiners are hereby cancelled.

The Board approves the designation of W. G. Johnston and G. F. Turman, Jr. as special assistant examiners for the Federal Reserve Bank of San Francisco to participate in the examinations of State member banks only.

Approved unanimously.

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

This will acknowledge your application, transmitted through the Federal Reserve Bank of New York, for the approval of the Board of Governors of the Federal Reserve System of a change in the location of your London, England, office from 26 Old Broad Street to 5 Queen Victoria Street.

The Board of Governors approves the proposed change in location of the London office.

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

Letter to Mr. McConnell, Vice President, Federal Reserve Bank of Minneapolis, reading as follows:

This refers to your letter of April 5, 1955, and its enclosures, concerning whether Mr. C. E. Fuller, Jr., a partner in the firm of Thomson and McKinnon, may continue to serve at the same time as a director of the Northern Minnesota National Bank of Duluth, Duluth, Minnesota, in view of the prohibition contained in section 32 of the Banking Act of 1933 as amended.

The question is whether Mr. Fuller or Thomson and McKinnon is "primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities" within the meaning of the statute and the provisions of the Board's Regulation R.

Among the enclosures with your letter was a copy of a letter of March 31, 1955, from Mr. P. R. Pascoe, President

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of the Northern Minnesota National Bank of Duluth, in which it is indicated that Mr. Fuller "has no connection with the security business other than his interest in Thomson and McKinnon," and that Thomson and McKinnon is a "brokerage firm" which "acts as agent in its transactions" and which "does not participate in the underwriting of securities of any kind."

In footnote 1 of the Board's Regulation R, it is stated that section 32 does not apply to "A broker who is engaged solely in executing orders for the purchase and sale of securities on behalf of others in the open market..." Therefore, if neither Mr. Fuller nor Thomson and McKinnon is "primarily engaged" in any businesses of the kinds covered by the statute, as suggested by Mr. Pascoe's letter, the statute would not prevent Mr. Fuller from continuing to serve the national bank.

Should you have any doubts concerning the matter, it would seem advisable to obtain further information of the kind contemplated by the Board's letter to all Federal Reserve Banks of January 27, 1948, as a basis for any further consideration of the question.

Approved unanimously.

Letter to Mr. Pondrom, Vice President, Federal Reserve Bank of Dallas, reading as follows:

Reference is made to your letter of March 24, 1955, submitting a request of Houston Bank & Trust Company, Houston, Texas, for the Board's reconsideration of its proposed investment in banking premises in an amount exceeding its capital stock.

After careful consideration of the request, the Board of Governors approves the increase in the investment in banking premises, directly and indirectly, to a total of \$2,300,000 by the Houston Bank & Trust Company, with the understanding that (a) the present banking quarters and the remaining portion of the Texas Avenue property will be sold without undue delay, the proceeds of such sales, after taxes, to be applied to the reduction of the mortgage against the new building; and (b) the bank will not be directly liable on the necessary outside financing, estimated at \$1,500,000, which will be employed in the building program.

Please notify the bank of the Board's action.

Approved unanimously.

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Letter to Mr. W. M. Taylor, Deputy Comptroller of the Currency, Treasury Department, Washington, D. C., reading as follows:

This will acknowledge receipt of your letter of March 31 advising that the expenses of your Office in auditing unissued Federal Reserve notes held in the custody of the Comptroller of the Currency will hereafter be charged to the Board of Governors of the Federal Reserve System as an item in the general cost of handling Federal Reserve currency by the Federal Reserve Issue and Redemption Division of the Comptroller's Office.

Approved unanimously.

Letter for the signature of the Chairman to the Honorable J. Percy Priest, Chairman, Committee on Interstate and Foreign Commerce, House of Representatives, Washington, D. C., reading as follows:

This is in response to your letters of January 31, 1955, requesting reports on H. R. 397 and H. R. 398, to your letter of February 5, 1955, requesting a report on H. R. 3458, and to that of February 10, 1955, requesting a report on H. R. 3720. (It has been noted that H. R. 3458 and H. R. 3720 are identical bills.) All of these bills contain provisions which would provide for Government insurance of mortgage loans made by lending institutions for the purpose of financing the construction of health facilities.

The only comment the Board has to offer relates to section 301 of H. R. 397 and section 251 of H. R. 3458 and H. R. 3720 which would exempt obligations insured under these bills from the provisions of section 5136 of the Revised Statutes which imposes certain limitations upon dealings in investment securities by national banks and which, by virtue of other provisions of law, is also applicable to State banks which are members of the Federal Reserve System. Since mortgage loans do not normally fall within the category of investment securities and since section 5136 of the Revised Statutes relates to investment securities, it is believed that the proposed exemption of mortgages insured under these bills from the provisions of that section would not be needed.

Approved unanimously, together
with the following letter for the

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signature of the Chairman to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington, D. C.:

This is in reference to your letter of March 29, 1955, relative to the Board's letter of February 25, 1955, with which were transmitted copies of the report which the Board proposed to send to the Chairman of the House Committee on Interstate and Foreign Commerce on the bills H. R. 397, 398, 3458, and 3720. All of these bills contain provisions which would provide for Government insurance of mortgage loans made by lending institutions for the purpose of financing construction of health facilities.

There are enclosed for your information and files copies of a report which the Board today has sent to the Committee. You will note that the last sentence of the closing paragraph has been slightly modified in the light of the suggestion made in your letter of March 29.

There was presented a draft of telegram to Mr. Millard, Vice President, Federal Reserve Bank of San Francisco, approving the establishment without change by that Reserve Bank on April 13, 1955, of the rates of discount and purchase in its existing schedule.

Approved unanimously.

There was presented a request from Miss Burr, Assistant Director, Division of Research and Statistics, for authority to travel to Philadelphia, Pennsylvania, for two days during the week of April 18, 1955, to examine, in the files of the Paul Cret firm, drawings and designs used in the Federal Reserve Building, in connection with work on the proposed new format of the Federal Reserve Bulletin.

Approved unanimously.

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Chairman Martin stated that his office had received a telephone call from the office of Mr. Joseph Campbell, Comptroller General of the United States, requesting a conference on Monday, April 18, at 2:30 p.m., for the purpose of discussing a letter which Mr. Campbell had received under date of April 13, 1955, from the Honorable William L. Dawson, Chairman of the House Committee on Government Operations, requesting that the Comptroller General make an audit of the Board of Governors, the Federal Open Market Committee, and the Federal Reserve Banks and branches for the period beginning January 1, 1953, and ending December 31, 1954. The letter, copies of which had been sent to the members of the Board prior to this meeting, read as follows:

You are hereby requested to make an audit for the period beginning January 1, 1953 and ending December 31, 1954 of the Board of Governors of the Federal Reserve System, the Federal Open Market Committee, and the Federal Reserve Banks and their branches, meaning and intending to include within the scope of the audit such operations and activities of the Federal Reserve System, so-called, as will better enable Congress to evaluate and appraise the operation of said system and to form judgments upon which may be premised possible legislative action. It is further requested that the audit shall include a sufficient examination of the operations of the aforementioned agencies during prior years to afford adequate fiscal perspective for viewing current operations.

It is requested that your report include such comments and recommendations as you may deem advisable.

Please consider that the above request is in the nature of an order made on behalf of the Committee on Government Operations of the House of Representatives pursuant to the provisions of Sec. 53(b) Title 31 of the U. S. Code.

In response to the Board's request for comment on the legal aspects of the matter, Mr. Vest made the following observations:

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It is not clear from Chairman Dawson's letter whether this represents an order of the Committee on Government Operations. It starts out as a request and later asks that the request be considered as "in the nature of an order made on behalf of the Committee..." This is simply a question of fact, but the question is an important one from the legal standpoint because, unless it is an order of the Committee, it does not conform to the statute to which it refers. That statute provides that the Comptroller General shall make such investigations and reports as shall be ordered by a committee.

Whether the Committee on Government Operations is one of those having jurisdiction over revenues, appropriations, and expenditures is another question for consideration, since committees having such jurisdiction are the only ones that can direct an audit. This is a debatable point. The Committee on Government Operations does have the duty of receiving and examining reports of the Comptroller General and of studying Governmental activities at all levels to determine the economy and efficiency of Governmental operations. Under the rules of the House of Representatives, the Banking and Currency Committee has jurisdiction over matters relating to the Federal Reserve System.

In a letter dated April 28, 1952, addressed to Chairman Patman, of the Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report, the Acting Comptroller General stated, for reasons set forth in the letter, that the General Accounting Office would be unable to undertake an audit of the activities of the Board and the Federal Reserve Banks without the specific authorization of the Congress.

With respect to the applicability of section 53(b) of Title 31 of the United States Code, there are rather strong arguments that the section is not applicable to the Board or the Federal Reserve Banks. While there may be some room for discussion, I am inclined to think that it is not the intent of the law that the Board and the Reserve Banks are within section 53(b). Certainly, that section would not be construed to permit the Comptroller General, even with authorization from the Congress, to go out and make audits of private concerns.

Section 53(b) is colored by other sections of the law. Section 53(a) relates to investigations by the Comptroller

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General of agencies having to do with public funds, whereas Congress has said that the Board's funds are neither public funds nor appropriated moneys. Reserve Bank funds are definitely not public funds, although upon dissolution of the Reserve Banks the law provides that the surplus shall then become the property of the United States. As to the Board, the matter is both easier and at the same time more difficult than in the case of the Reserve Banks. The Board is specifically authorized to determine its own expenditures, and the law specifically provides that its funds are not Government funds. On the other hand, section 54 of Title 51 provides that all departments and agencies of the Government shall furnish to the Comptroller General such information regarding their activities as he may from time to time require, and he may have access to and examine papers of any such establishment. In brief, the argument is that section 53(b) must be taken in context and that the Congress is referring therein to agencies having to do with public funds and expenditures of public moneys.

In response to a question by Chairman Martin, Mr. Vest said that if the Committee on Government Operations had acted to order an audit, it might be necessary to take the position that in section 53(b) the Congress did not intend to give such broad authority as to permit the Comptroller General to go into the Board and the Federal Reserve Banks.

At the Board's request, Mr. Cherry then reviewed the circumstances under which certain reports of examination of the Federal Reserve Banks and related documents were transmitted to the House Banking and Currency Committee last year. He recalled that Representative Patman thereafter offered a resolution to that Committee which, if adopted, would have directed the Comptroller General to examine the reports to see whether they conformed to standards used by the General Accounting Office. He understood, however, that the Banking and Currency Committee left the matter that the

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Chairman of the Committee was to consult with the Chairman of the Board of Governors before the Committee proceeded further. The Chairman of the Committee did not do so, and no further action was taken by the Committee. Mr. Cherry also recalled that a resolution to the same effect was introduced by another member of the Congress in the House Committee on Government Operations, but he said that although the Board's views on the resolution were requested and transmitted, no action appeared to have been taken by that Committee. He added that the reports of examination of the Federal Reserve Banks and the other documents were returned to the Board in September 1954, it being understood that the Banking and Currency Committee could have them again upon request.

There ensued a general discussion as to procedure and it was the unanimous view that the Board of Governors should meet with the Comptroller General at the time suggested. In the course of the discussion, Governor Robertson suggested the desirability of having at the meeting as a basis for discussion a statement concerning Chairman Dawson's request. He then outlined some of the points which might be covered in such a statement, including the question of the jurisdiction of the Committee on Government Operations, its authority to act under section 53(b), and the applicability of that section to the Board, the Federal Reserve Banks, and the Federal Open Market Committee.

It was agreed unanimously that a statement of the kind suggested by Governor Robertson should be drafted for consideration by the Board at a meeting on the morning of Monday, April 18.

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Governor Robertson stated that there was pending before the Board an application for membership in the System filed by the organizers of a proposed new bank in Sullivan, Indiana, and that the recommendations were favorable with respect to the application. However, he said, Mr. John Hays, of Sullivan, a lawyer and a director of the Sullivan State Bank, had asked for an opportunity to meet with the Board on April 21 or 22, accompanied by the president of Sullivan State Bank, to present reasons why he opposed the opening of the new bank. Governor Robertson went on to say that he had received a telephone call from Congressman William L. Springer, of Illinois, about the matter and he had put a memorandum of that call in the files.

It was agreed unanimously that an invitation should be extended to Mr. Hays to meet with members of the Board on Thursday, April 21, at 2:30 p.m.

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

The meeting then adjourned.



Secretary