Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, May 5, 1955. The Board met in the Board Room at 9:30 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Vest, General Counsel
Mr. Chase, Assistant General 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:

Memoranda from appropriate individuals concerned recommending actions with respect to the Board's staff as follows:

Salary increase

Rose C. Cassedy, Division of Research and Statistics. From $3,655 to $3,785 per annum, effective May 8, 1955, incident to her transfer from the position of Clerk to the position of Statistical Assistant.

Additional advance of sick leave

Helen L. Sweeney, Clerk, Division of Administrative Services. For a period of 30 days, beginning May 6, 1955.

Acceptance of resignations

Gloria R. Grant, Clerk-Typist, Division of Research and Statistics, effective April 29, 1955.

Gladys W. Willard, Clerk, Division of International Finance, effective May 13, 1955.

Approved unanimously.

Memorandum from Mr. Sloan, Director, Division of Examinations, dated April 26, 1955, outlining plans for a dinner proposed to be given on May 11, 1955, at a cost not to exceed $8 per person, in connection with the meeting of the Conference of General Auditors of the Federal Reserve Banks, and submitting for approval a statement of the proposed attendance. The memorandum stated that provision for this dinner had been made in the Division's budget for 1955.

Approved unanimously.

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 27, 1955, the Board approves the appointments of Edward F. Kipfstuhl, Joseph M. O'Connell and Donald F. Rice as assistant examiners for the Federal Reserve Bank of New York. Please advise the dates upon which the appointments are made effective and also the salary rates.
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> The Board also approves the designation of Joseph P. Abromitis as special assistant examiner for the Federal Reserve Bank of New York.

Approved unanimously.

Letter to Mr. Hill, Vice President, Federal Reserve Bank of Philadelphia, reading as follows:

> Pursuant to the request contained in your letter of April 27, 1955, the authorizations heretofore given your bank to designate the following employees as special assistant examiners for the Federal Reserve Bank of Philadelphia are hereby canceled:
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> |---|---|
> | William Crozier, Jr. | Joseph A. Costello |
> | Norman Simpson | Edward T. Sloan |
> | William D. Myers | Edward Fitzpatrick |
> | Harry Donnelly | Robert S. McClintock |
>
> The Board approves the designation of the following named employees of your bank as special assistant examiners for the purpose of participating in the examination

of all State member banks and State banks applying for membership in your District, except the bank indicated immediately above their names:

Bank excluded from authorization:
Camden Trust Company, Camden, New Jersey
William Crozier, Jr.
Norman Simpson

Bank excluded from authorization:
Fidelity-Philadelphia Trust Company, Philadelphia, Pa.
William D. Myers

Bank excluded from authorization:
Girard Trust Corn Exchange Bank, Philadelphia, Pa.
Harry Donnelly
Joseph A. Costello

Bank excluded from authorization:
The Pennsylvania Company for Banking and Trusts, Philadelphia, Pa.
Edward T. Sloan
Edward Fitzpatrick
Robert S. McClintock

Approved unanimously.

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

Reference is made to your letter of April 25, 1955, submitting the request of The Fidelity Bank, Durham, North Carolina, for approval, under the provisions of Section 24A of the Federal Reserve Act, of an additional investment of $60,000 for the installation of new automatic elevators in the main office banking quarters.

The Board has given consideration to the asset condition, management, earnings, capital structure, and physical needs of The Fidelity Bank, Durham, North Carolina, and approves the additional investment of $60,000 in banking premises. It is assumed that the bank will continue a satisfactory program of depreciating fixed assets.

Approved unanimously.

Letter to the Board of Directors, The Fifth Third Union Trust Company, Cincinnati, Ohio, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors hereby gives its written consent under the provisions of section 18(c) of the Federal Deposit Insurance Act to the merger (called "consolidation" in the Ohio statutes) of The Lincoln National Bank of Cincinnati, Ohio, with The Fifth Third Union Trust Company, Cincinnati, Ohio, and approves the establishment by the continuing bank of a branch at the present location of the national bank (Fourth and Vine Streets, Cincinnati, Ohio) provided (a) the merger is carried out substantially in accordance with the agreement between the parties dated March 25, 1955, (b) formal approval of the State authorities is obtained, and (c) the merger and establishment of the branch are effected within six months from the date of this letter.

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

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

Reference is made to your letter of April 26, 1955, submitting the request of the Peoples Bank and Trust Company, Cedar Rapids, Iowa, for an extension of thirty days in which to accomplish admission to membership in the Federal Reserve System, due to the necessity of calling a special shareholders' meeting in order to comply with one of the conditions imposed by the Board.

In view of the circumstances set forth in your letter, the Board of Governors concurs in your favorable recommendation and extends to June 30, 1955, the time within which admission of the Peoples Bank and Trust Company, Cedar Rapids, Iowa, to membership in the Federal Reserve System, in the manner set forth in the Board's letter of March 31, 1955, may be accomplished.

Approved unanimously.

Reference was made to a draft of letter to the Federal Reserve Bank of San Francisco responding to that Bank's letter of March 16, 1955, pertaining to the real estate brokerage business conducted by Tracy-Collins Trust Company, a member bank in Salt Lake City, Utah. From the information submitted by the Reserve Bank it was understood that the member bank proposed to expand substantially its business of acting as agent for the purchase and sale of real estate, that a separate real estate department staffed by salesmen on a commission basis had been established, and that the anticipated volume of transactions for the year 1955 would be two-thirds the aggregate volume during the five past years. As a condition of membership in the Federal Reserve System, the member bank agreed that it would exercise the powers which it had under its charter to transact a general loan, brokerage, and commission business "so as not to permit them to assume such proportions as in the judgment of the Federal Reserve Board may endanger the safety of your depositors". The draft of letter would take the position that the bank's proposed expansion of real estate agency activities in the volume and scope contemplated would assume such proportions and would involve such unsatisfactory features that it might endanger the safety of the bank's depositors and, therefore, that it would be in conflict with the applicable provisions of the conditions of membership.

Governor Mills stated that it was difficult to ascertain from the file on the matter the extent to which other banks in Salt Lake City were

engaged in the same type of business. He suggested that if other banks were so engaged, there would seem to be a question whether action should be taken in the case of Tracy-Collins Trust Company unless comparable action was taken in the case of the other institutions.

The point raised by Governor Mills was discussed, and it was the view of the Board that further information should be obtained which would clarify the extent to which other banks in Salt Lake City were carrying on the same type of activity.

There was presented a request from Mr. Young, Director, Division of Research and Statistics, for authority to travel to Princeton, New Jersey, on June 3 and 4, 1955, to attend a meeting of the Committee for Economic Development's Research Advisory Board.

Approved unanimously.

Prior to this meeting there had been circulated to the members of the Board a draft of letter, prepared for the signature of Chairman Martin, to Mr. Rowland R. Hughes, Director of the Bureau of the Budget, reading as follows:

> The report of the Commission on Organization of the Executive Branch of the Government entitled "Legal Services and Procedure" deals principally with matters which do not affect the Board of Governors of the Federal Reserve System in view of the small number of hearings and court cases which it has, or in some instances because the recommendations deal specifically with other agencies or departments. However, some of the recommendations in the report would affect the Board, and upon certain of these the Board would like to comment.

Recommendation No. 1 apparently contemplates that the authority of agencies having legal staffs of 10 or fewer attorneys be reviewed by Congress and that possibly the Department of Justice should take over the functions and provide the legal services now performed by these smaller staffs. The legal staff of the Board of Governors has numbered at different periods in the past more than 10 attorneys or fewer than that number, and at present numbers 10. In the Board's judgment it would be neither practical nor efficient for the services and functions performed by its legal staff to be transferred to the Department of Justice. The Board's legal staff is engaged primarily in work in a highly specialized field, where knowledge of the history and development of the Federal Reserve Act and related statutes over a long period is essential to an understanding and evaluation of most of the legal questions presented. The legal staff contains no personnel engaged in public relations or other nonlegal activities. If the staff is to be of genuine and effective usefulness to the Board, it is necessary for it to function on a basis of close and day-by-day contact with the problems upon which the Board needs legal services.

Recommendations Nos. 11 to 16, inclusive, provide for the establishment of a legal career service in the executive branch, separate and distinct from the Civil Service Commission and other employee services, and administered in the Department of Justice. The Board is not in a position to comment on this recommendation insofar as attorneys in other agencies are concerned, but wishes to point out that the establishment of such a legal career service for its attorneys, and the related recommendations regarding reductions in force, grading systems, and similar matters, would not be advantageous to the Board or to the members of its legal staff. The Board's attorneys, like its other employees, are not subject to the rules of classified Civil Service, the morale of the staff is high, and it is believed that the establishment of a career service as proposed would not operate to improve its morale or efficiency.

Recommendation No. 33 would restrict the exceptions now contained in Section 4(a) of the Administrative Procedure Act. The present statutory provision allows the agency to dispense with notice and hearing in connection with rule making if it finds that these steps are impracticable, unnecessary, or contrary to the public interest. The Board has made such findings in connection with changes in discount rates, changes in reserve requirements, and changes in margin requirements for the financing of securities purchases. In its

letter to the Commission on February 8, 1955, commenting on a proposed revision of the Administrative Procedure Act, the Board said:

> ". . . The Board of Governors from time to time changes the margin requirements established in its Regulation T and Regulation U (12 C.F.R. §§ 220 and 221), but in most cases finds it imperative to avoid all advance notice of its action. The reasons, briefly, are that such notice (or public participation, or delay) would prevent the action from becoming effective as promptly as necessary, might permit speculators or others to reap unfair profits or possibly to interfere with the effectiveness of the Board's actions, and would provoke other consequences contrary to the public interest. (See 12 C.R.R. § 262.2(e))."

Similar considerations apply with respect to the establishment of Federal Reserve discount rates and changes in reserve requirements. Consequently, the Board believes that the exception in Recommendation No. 33, which is limited to matters requiring "secrecy", is not sufficiently broad and that if the Administrative Procedure Act is to be amended in this respect provision should be made to take care of situations involving changes or proposed changes in margin requirements and Federal Reserve discount rates.

Recommendation No. 43 apparently would require the elimination of the exception in the first part of Section 10 of the Administrative Procedure Act which withholds judicial review of any agency action which is by law committed to agency discretion. The Board believes that such an amendment would be unwise. Obviously, judicial review should be provided, as it now is, where an administrative agency acts in an arbitrary or capricious manner. However, where a matter is committed, by the legislature, to agency discretion and the discretion has not been abused, it would be contrary to the legislative plan, as well as a duplication of effort, to provide for a new trial in which the court's decision would be substituted for the decision of the agency which is supposed to be technically competent.

It is assumed that the reference in Recommendation No. 51 to jurisdiction of the Board of Governors in "the trade regulation field" refers to the Board's authority over section 7 of the Clayton Antitrust Act. This recommendation would transfer to an administrative court of the United States the

Board's jurisdiction in this field. Presumably the jurisdiction transferred relates to the judicial functions involved and not to the investigative or prosecuting functions, which presumably would be left undisturbed. The Board would favor legislation to effectuate this recommendation.

Approved unanimously.

Mr. Chase then withdrew from the meeting.

Reference was made to a memorandum from Mr. Vest dated May 4, 1955, copies of which had been sent to the members of the Board, concerning the request of the Federal Reserve Bank of Chicago for the consent of the Board to the retention of outside tax counsel to represent the Reserve Bank in obtaining a reduction in the valuation of its head office real property for the 1955-58 quadrennial tax period. Following a previous discussion of the matter by the Board at the meeting on April 14, 1955, a letter was sent to the Chicago Bank under date of April 15 stating that the Board questioned the desirability of entering into contingent fee arrangements with attorneys, that the Board was not disposed to give its consent to the retention of special tax counsel on a contingent fee basis, but that the Board would be glad to receive any comments on the subject, including comments on the alternative courses which might be available, together with information as to the position of the Bar Association of the State of Illinois with regard to contingent fees. In a letter dated April 26, a copy of which was attached to Mr. Vest's memorandum, Mr. Young, President of the Chicago Reserve Bank, stated that the

Illinois Bar Association had not taken a position on contingent fee arrangements for handling tax valuation cases, but that the Chicago Bar Association had an active tax committee which had approved this type of arrangement as being the most equitable for both tax counsel and their clients. President Young's letter also stated that the Bank continued to favor the contingent fee basis as being the most equitable and the least likely to be subject to criticism, and Mr. Hodge, General Counsel for the Bank, expressed the same view in conversation with Mr. Vest. As to alternatives, Mr. Young's letter set forth the following possibilities, with the statement that, of the two, the Bank preferred the second alternative:

1. $12,500 to be paid regardless of the outcome.

2. A minimum fee of $10,500 if a reduction in the excessive valuation could not be obtained, or $15,000 if a substantial reduction were obtained.

Mr. Vest's memorandum pointed out that the figure of $12,500 appeared to be based on the payment made for legal services in connection with the last previous four-year tax period, which payment in turn was based on one-half of the tax saving for the first year of the tax period.

The courses available to the Reserve Bank were discussed at some length and it appeared that there was a choice among (1) paying taxes based on the full valuation of the property without protest; (2) having the Reserve Bank's counsel institute action to secure a reduction in the valuation; and (3) retaining tax counsel on a contingent fee basis or

under one of the alternative arrangements suggested in Mr. Young's letter. Some question was raised concerning the technical knowledge required for submitting a request for a reduction in the valuation, and it was pointed out that according to the Chicago Reserve Bank the nature of these tax cases was such that its legal staff would not be equipped to handle the matter and would necessarily have to hire outside experts. On the other hand, it was noted that the Chicago Bank, through outside tax counsel, had presented such cases previously and that perhaps the technical requirements would not be so great for entering the same sort of a claim at this time.

It was the view of the Board that in principle the employment by a Reserve Bank of outside counsel on a contingent fee basis should be regarded unfavorably. In view of the tax situation in Chicago, as explained by the Reserve Bank, the majority of the Board therefore favored the alternative under which outside tax counsel would be employed on a flat fee basis, although it was recognized that this fee might not represent the amount of work which the tax counsel would have to devote to the case. Some feeling was expressed that in all the circumstances, including the position of the Chicago Bar Association and the fact that the Board's views had been brought to the attention of the Reserve Bank, it would now be appropriate for the Board to leave the matter to the discretion of the Reserve Bank's Board of Directors.

In order that there might be no doubt that the Chicago Board of Directors had given full consideration to the matter, it was suggested that a letter be written to Chairman Coleman, with a copy to President Young, expressing the Board of Governors' feeling against contingent fees as a matter of principle, going on to state that in the opinion of the Board the tax matter was one which should be fully explored and carefully considered by the Reserve Bank's directors, but indicating that in all of the circumstances the Board would be willing to accept the decision of the directors.

At this point Governor Mills withdrew from the meeting to keep another appointment. Before leaving, he said that although he would not want to be recorded as opposing action on the part of the Board along the lines suggested, he had reservations and would prefer to advise the Reserve Bank that the Board favored employment of tax counsel at a flat fee of $12,500, if the retention of such counsel was considered necessary by the Bank. It was his feeling that this course should be followed as an experiment in order to ascertain what would be the best way of dealing with comparable situations which might arise at some future date.

There ensued a further discussion of the problem, at the conclusion of which unanimous approval was given to a letter from Chairman Martin to Chairman Coleman in the following form, with the understanding that a copy would be sent to President Young:

This refers to the recent correspondence between the Federal Reserve Bank of Chicago and the Board with reference

to the employment of tax counsel to represent the Bank in obtaining a reduction in the valuation of the Bank's real property for the 1955-1958 quadrennial period. The Federal Reserve Bank recommended the employment of the law firms of Mayer, Meyer, Austrian & Platt and Holt & Kearney on a contingent fee basis of one-half of the saving in the first year's taxes. In Mr. Young's letter of April 26, 1955, in response to a request from the Board as to what alternative courses would be available if the contingent fee basis is not approved, the following alternatives were indicated:

(1) $12,500 to be paid regardless of the outcome.
(2) A minimum fee of $10,500 if they are unable to obtain a reduction in the excessive valuation or $15,000 if they obtain a substantial reduction.

The Board of Governors has again discussed this matter and continues to feel, as indicated in its letter to Mr. Young of April 15, 1955, that it is undesirable as a matter of principle for a Federal Reserve Bank to enter into arrangements with attorneys on a contingent fee basis and would be very reluctant to see the matter handled on such a basis. Since, however, this is a matter which falls primarily within the province of the board of directors of the Bank, it is requested that your board give the matter further consideration and the Board of Governors is prepared to accept the decision of your board. Accordingly, the Board of Governors gives its approval to the payment of a fixed fee of $12,500, as mentioned in alternative (1) above, or to a contingent fee arrangement of one-half of the saving in the first year's taxes if this should be the determination of your board after consideration of the views of the Board of Governors in the matter.

There had been distributed to the members of the Board at the request of Governor Robertson photostatic copies of a drawing showing the assignment of offices to members of the Board and members of the staff at the Board's relocation center in Richmond.

The assignment of offices as shown on the drawing was approved unanimously.

At this point Messrs. Sloan, Director, Division of Examinations, and Hexter, Assistant General Counsel, entered the room.

Governor Robertson referred to the discussion at the meeting on April 28, 1955, concerning the mobile banking facilities provided in Puerto Rico by the First National City Bank of New York. After reviewing developments in this connection, he said that a letter had now been received from the First National City Bank in response to the Board's request for comments on its armored car operations, but that in his opinion the information supplied by the bank did not indicate that there was a satisfactory basis for continuation of the practice. In the circumstances, he felt that the Board was now in a position to advise the First National City Bank that henceforth the bank would not be authorized to operate the armored car service except for the delivery of pay rolls to Puerto Rican concerns. Such action on the part of the Board, Governor Robertson said, would enable the banks in Puerto Rico to take care of the local industries for pay roll purposes and at the same time would prevent one bank from engaging in a practice which is competitively unfair from the standpoint of other banking institutions. He said that The Chase Manhattan Bank, of New York, which it was understood planned to acquire armored cars and provide similar service, would not go forward with its plans if the First National City Bank stopped providing that kind of service.

In response to a question by Chairman Martin, Mr. Sloan said the Federal Reserve Bank of New York had indicated informally that it favored having the service now provided by the First National City Bank discontinued.

He went on to say that yesterday he and Mr. Hexter had a discussion with an official of the Federal Deposit Insurance Corporation who, after talking with the supervising examiner of the district of which Puerto Rico is a part, stated that both he and the supervising examiner felt certain that the local Puerto Rican banks would not go forward with their plans to provide armored car service if the First National City Bank terminated such service.

In the course of a discussion which followed, Governor Vardaman withdrew from the meeting to keep another appointment. Before leaving, he stated that while he would go along with whatever action was decided upon by the majority of the Board, it was his opinion that the Board was "treading on awfully ticklish grounds" if it should require the First National City Bank to discontinue its present mobile banking facilities.

There was a further discussion and the members of the Board present concurred in the view of Governor Robertson that the First National City Bank should be required to discontinue its deposit pick-up service. It was felt, on the other hand, that a decision need not be reached at this time concerning pay roll delivery service and that this phase of the matter should be explored further with appropriate parties.

At the conclusion of the discussion, unanimous approval was given to a letter in the following form to Mr. James S. Rockefeller, President, The First National City Bank of New York, New York, New York, for transmittal through the Federal Reserve Bank of

New York, with the understanding that copies would be sent to the Federal Deposit Insurance Corporation and the Comptroller of the Currency:

As you know, the Board of Governors has had under consideration for some time the practice of your branch in San Juan, Puerto Rico, to use an armored truck for delivery of payrolls to customers' places of business and pickup of cash and checks for deposit in customers' accounts. In addition to its own study of the matter, the Board has had the benefit of the views of other Federal bank supervisory authorities and the Puerto Rican banking authorities, as well as the views and information submitted by your Bank.

Pursuant to the authority conferred upon it by section 25 of the Federal Reserve Act and after thorough consideration of the matter, the Board of Governors has concluded that the practice of deposit pickups by national banks in Puerto Rico, through the use of armored trucks or other vehicles, should be terminated. It is hoped that the discontinuance of this practice by your Bank can be effected promptly, although the Board recognizes that customers to whom this service has been rendered are entitled to reasonable notice and opportunity to make new arrangements.

It is to be noted that the Board's action at this time relates only to the deposit pickup service and does not relate to delivery of payrolls to customers of the bank. The latter subject is continuing to receive consideration. In the meantime, if your Bank should decide to terminate the practice of delivering payrolls as well as the pickup of deposits, it will be appreciated if you would advise the Board of this decision.

You are requested to inform the Board when the deposit pickup service has been terminated.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on May 4, 1955, were approved unanimously.

The meeting then adjourned.

Secretary