

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, May 9, 1955. The Board met in the Board Room at 10:00 a.m.

PRESENT: 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. Young, Director, Division of Research and Statistics
 Mr. Sloan, Director, Division of Examinations
 Mr. Solomon, Assistant General Counsel
 Mr. Horbett, Assistant Director, Division of Bank Operations
 Mr. Masters, Assistant Director, Division of Examinations
 Mr. Hexter, Assistant General Counsel
 Mr. Connell, Chief, Reserve Bank Operations Section, Division of Bank Operations
 Mr. Hooff, Assistant 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 that the basic annual salaries of the following employees be increased in the amounts indicated, effective May 8, 1955:

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Research and Statistics</u>			
Gladys M. Davis, Draftsman		\$3,190	\$3,270
Gerald F. Millea, Administrative Assistant		6,540	6,740

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Salary increases, effective May 8, 1955 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Research and Statistics</u>			
Paul B. Simpson, Chief, Business Finance and Capital Markets Section		\$10,000	\$10,800
Edward P. Snyder, Economist		5,310	5,435
<u>International Finance</u>			
Pauline E. Hauver, Clerk		3,350	3,430
<u>Examinations</u>			
Elizabeth A. Kropog, Special Assistant Federal Reserve Examiner		3,535	3,660
Robert R. Russell, Assistant Federal Re- serve Examiner		4,455	4,580

Approved unanimously.

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

In accordance with the request contained in your letter of April 28, 1955, the Board approves the designation of William S. Koester as a special assistant examiner for the Federal Reserve Bank of Dallas.

Approved unanimously.

Letter to Mr. Latham, Vice President, Federal Reserve Bank of Boston, reading as follows:

Reference is made to your letter of April 22, 1955, submitting the request of The New England Trust Company,

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Boston, Massachusetts, for permission under the provisions of section 24A of the Federal Reserve Act to expend not to exceed \$500,000 in renovating and improving its main office building.

The Board of Governors has given consideration to the asset condition, management, capital structure, and physical needs of The New England Trust Company and approves the proposed increase in investment in bank premises. It is understood that such premises will not be carried on the bank's books at a value in excess of \$1,245,000. Please advise the bank accordingly.

The bank's fixed assets after the improvements will bear a conservative relationship to capital structure and the depreciation policy in past years had been quite ample. Accordingly, it is not felt that it is necessary to stipulate a minimum annual charge-off at this time.

Approved unanimously.

Reference was made to a memorandum dated April 26, 1955, from Mr. Sloan, Director, Division of Examinations, which had been circulated to the members of the Board and which read as follows:

It is recommended that the Division of Examinations be authorized to expend approximately \$600 to provide reporting service and copies of the transcript in connection with the biennial meeting of the Conference of General Auditors of the Federal Reserve Banks, which will be held in Washington on May 11-13, 1955. The budget of the Division of Examinations for 1955 included \$500 to cover the cost of this reporting service, subject to specific approval by the Board. Current negotiations for the reporting service indicate that the cost, including the necessary copies of the transcript, will probably be about \$600.

The General Auditors have requested that a detailed record of the Conference be provided. Detailed minutes were written in connection with the meetings of the Conference held in 1944, 1947, 1949, and 1951, but in 1953 only a few major conclusions were recorded. Most of the General Auditors have found the full record of the earlier

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meetings to be valuable for reference in connection with their work and, conversely, they feel that the lack of such a record of the 1953 meeting resulted in loss of some of the value of the meeting.

Governor Robertson stated that although he did not wish to vote against authorizing the expenditure necessary to provide the transcript inasmuch as the general auditors favored the procedure and the meeting was one called by the Conference of General Auditors rather than by the Board, he doubted the advisability of preparing transcripts of such meetings since he felt that the participants would obtain more from the meeting and express themselves more freely if a full record of the proceedings was not being made. He felt that the matter should be discussed again with the general auditors before another meeting of the Conference with a view to presenting the reasons why a transcript would not appear to be necessary and obtaining the consent of the auditors, if possible, to some other procedure.

Following a discussion, during which other members of the Board indicated that their views were along the lines of those expressed by Governor Robertson, the recommendation contained in Mr. Sloan's memorandum was approved unanimously.

Prior to this meeting there had been circulated to the members of the Board a draft of letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., (Attention: Mr. W. M. Taylor, Deputy Comptroller of the Currency), reading as follows:

Reference is made to a letter from your office dated March 17, 1955, enclosing photostatic copies of an application

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to organize a national bank at Fairlea, West Virginia, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application made by an examiner for the Federal Reserve Bank of Richmond indicates that the proposed capital structure of the bank has been revised from \$90,000 to \$100,000 and that it would appear adequate to accommodate the anticipated volume of business. It is reported that the bank would have considerable difficulty in attracting a sufficient volume of deposits to assure profitable operations; that the proposed directors and management appear to lack the experience to operate the bank satisfactorily; and that the need for another bank in the area is not apparent. After considering all the information available the Board of Governors does not feel justified in recommending approval of the application.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office, if you so desire.

After Governor Vardaman indicated that he wished to vote against an adverse recommendation in this case, Mr. Sloan made a statement at the request of the Board in which he reviewed the various reasons why the Federal Reserve Bank of Richmond and the Division of Examinations considered an unfavorable recommendation to be warranted.

There ensued a discussion during which Governor Vardaman reiterated the views he had expressed at the meeting on May 4, 1955, concerning the approach which should be followed in considering applications for new national banks. He again said that his thinking was influenced strongly by the fact that if banks were not established in various places, other types of financial institutions probably would be organized to serve the territory. He also expressed the opinion that if there was a question concerning

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a matter such as the adequacy of the proposed management or the adequacy of the capital structure, it would be preferable to set forth conditions in connection with the organization of the bank rather than to deny the application.

Governor Balderston said that he shared Governor Vardaman's concern about restricting private initiative unduly, but that on the other hand there were certain responsibilities placed upon the Board to prevent overbanking and recurrence of a situation somewhat like that which obtained in the 1920s. He was not entirely sure what policy with respect to bank charters ought to be followed in view of the spreading out of the nation's population and improvements in transportation, but the point which gave him most concern was the control exercised over the organization of commercial banks as opposed to the apparently less rigid standards for the establishment of savings and loan associations and other types of financial institutions. With respect to the application now before the Board, he said that the number of existing banks in areas close to the place where the proposed bank would be located caused him to support the recommendation of the Federal Reserve Bank.

Governor Vardaman said that he also was concerned regarding the problem of overbanking, particularly in the light of his personal experience. On the other hand, he felt that the Board was charged with encouraging the development of banking, and he said that he did not know of any other organization that makes quite the same contribution to the community as a bank. He thought that the average application to organize a new bank

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should be approved, provided there was no question as to the sufficiency of the management or the character of the organizers, and that if the bank did not work out over a period of years, it could be liquidated. He characterized a bank as not only a trusteeship but an active merchandising organization.

Following further discussion, the letter to the Comptroller of the Currency was approved in the form set forth above, Governor Vardaman voting "no" for the reasons which he had stated.

There were presented telegrams to the Federal Reserve Banks of New York, Philadelphia, Chicago, St. Louis, and San Francisco approving the establishment without change by the Federal Reserve Bank of St. Louis on May 2, by the Federal Reserve Bank of San Francisco on May 4, and by the Federal Reserve Banks of New York, Philadelphia, and Chicago on May 5, 1955, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

There had been circulated to the members of the Board a memorandum dated April 27, 1955, from the Division of Bank Operations recommending that the first page of the Board's weekly release, Condition of the Federal Reserve Banks, be changed to reflect weekly averages rather than Wednesday figures and that, to describe the release more accurately, its title be changed to Weekly Averages of Member Bank Reserves, Reserve Bank Credit, and Related Items and Statement of Condition of the Federal Reserve Banks. To the memorandum was attached a draft of the first page as it would be revised to reflect the proposed changes. The memorandum stated

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that the Federal Reserve Banks had been asked for their views, that the majority favored the proposed change-over to weekly averages, but that inasmuch as some of the Banks which favored the change also stressed the desirability of preserving the one-day series, it was proposed to add a new paragraph to the first page which, taken together with the combined statement of condition of the Federal Reserve Banks on the succeeding pages, would provide the necessary information.

Following a discussion, during which the advantages of the proposed revised presentation were outlined, the recommendation contained in the memorandum from the Division of Bank Operations was approved unanimously, with the understanding that the changes in the form of the weekly statement would be made effective with the release dated May 12, 1955.

Messrs. Horbett and Connell then withdrew from the meeting.

At the meeting of the Board on March 16, 1955, consideration was given to a proposed amendment to section 10(c) of Regulation F, Trust Powers of National Banks, which would permit the collective investment by national banks of funds of pension, profit-sharing, and stock bonus plan trusts, when authorized by the trust instrument or by court order, without complying with the present provisions of section 17, dealing with common trust funds. Pursuant to the action taken by the Board on that date, the proposed amendment was published in the Federal Register to obtain the views of interested parties. The date for submitting such suggestions and comments having expired on April 25, a memorandum from the

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staff was prepared under date of May 3 discussing the comments received, which related principally to clarification. The memorandum, copies of which had been sent to the Board prior to this meeting, proposed that the amendment to Regulation F contain two additional provisions intended to clarify its purpose and effect. It was recommended that the amendment be adopted in the revised form, effective approximately 30 days after publication in the Federal Register.

At the meeting on March 16 the Board also discussed whether similar permission should be extended to cases where an individual settlor creates two or more trusts and also specifically authorizes their commingling. No action was taken with respect to this proposal and it was understood that the matter would be explored further by the staff. Accordingly, there had been sent to the members of the Board copies of a memorandum from Mr. Masters dated April 27, 1955, reviewing discussion of the matter with representatives of the Office of the Comptroller of the Currency. The views of the Comptroller's Office were summarized as follows:

The Comptroller's Office has considered the several aspects of the problem, as discussed in foregoing, but is nevertheless inclined to believe that the problem in question is not of such importance that the Comptroller should suggest changes in language of the proposed amendment which would be designed to eliminate possible violations arising from authorized commingling of trusts created by the same settlor. The Comptroller's Office agrees that it would be unwise to further delay final action on the proposed amendment pending completion of necessarily comprehensive and time consuming research to determine more accurately the nature and extent of existing commingling practices by national banks and the related attitudes of examiners. It prefers to await results; to attempt to meet any newly created problems through its existing examination and

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administrative procedures; to reserve to a later date appraisal of the effect of the proposed change in section 10(c) provisions on the commingling practices in national banks.

While calling attention to the fact that it may now be the practice of certain national banks to commingle funds of related trusts where authorized to do so by the trust instrument, in view of a possible interpretation that the current provisions of sections 10(a) and 10(c) of Regulation F, taken together, do not prohibit such a practice, the memorandum stated that the staff was agreeable to coinciding its views with those of the Comptroller's Office and letting the future provide guidance as to the extent and nature of problems which might arise on account of the provisions of the amended section 10(c) of the Board's regulation.

Following comments by Mr. Hexter and Mr. Masters, a suggestion was made for an additional change in the proposed footnote 11a to section 10(c) in the interest of further clarification.

Unanimous approval was then given to an amendment to section 10(c) of Regulation F in the following form, with the understanding that the amendment would be published in the Federal Register:

AMENDMENT TO REGULATION F

Issued by the Board of Governors of the Federal Reserve System

TRUST POWERS OF NATIONAL BANKS

Effective June 13, 1955, subsection (c) of section 10 of Regulation F is amended to read as follows:

(c) Collective investment of trust ^{10/} funds. - Funds received or held by a national bank as fiduciary shall not be invested collectively ^{11/} except that (i) such collective investments may be made in accordance with

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section 17 of this regulation, and (ii) funds of a trust which forms part of a pension, profit-sharing, or stock bonus plan of an employer for the exclusive benefit of his employees or their beneficiaries and which is exempt from Federal income taxes under the Internal Revenue Code may be invested collectively with funds of other such pension, profit-sharing, or stock bonus plan trusts if such collective investment is specifically authorized by the instrument creating the trust or by court order.11a

- 10/ Unless the context otherwise indicates, the term "trust," as used in this section or in any other part of this regulation, refers to any fiduciary relationship which a national bank is authorized to enter into under the provisions of section 11(k) of the Federal Reserve Act.
- 11/ This does not prevent the bank from investing the funds of several trusts in a single real estate loan if the bank owns no participation in the loan and has no interest therein except in its capacity as fiduciary.
- 11a/ Section 584 of the Internal Revenue Code of 1954 provides that a common trust fund maintained in conformity with rules and regulations of the Board of Governors of the Federal Reserve System "pertaining to the collective investment of trust funds by national banks" and meeting certain other requirements shall not be subject to Federal income taxation. The rules and regulations of the Board of Governors for the purposes of section 584 are contained solely in section 17 of this regulation; and the permission contained in exception (ii) of section 10(c) is not intended to confer exemption from Federal income taxation under section 584.

In this connection, unanimous approval was given to the following letter to the Presidents of all Federal Reserve Banks, with the understanding that appropriate letters of notification concerning the amendment to Regulation F also would be sent to the Comptroller of the Currency and the American Bankers Association:

There is enclosed an amendment to section 10(c) of Regulation F, adopted effective June 13, 1955, which will permit

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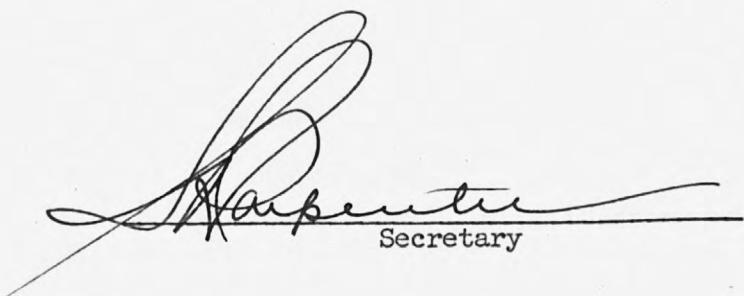
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the collective investment of funds of trusts which are established under employers' pension, profit-sharing, or stock bonus plans, without requiring compliance with the provisions of section 17, provided each such trust is exempt from Federal income taxes and the collective investment is specifically authorized by the trust instrument or by court order. This amendment is in the same form as the draft enclosed with the Board's letter of March 21, 1955, except for the addition of two provisions intended merely to clarify the purpose and effect of the amendment. These changes consist of the words "with funds of other such pension, profit-sharing, or stock bonus plan trusts" added to the text of the subsection, and the addition of footnote 11a.

Publication of this amendment, as paragraph (c) of §206.10 of Title 12 of the Code of Federal Regulations, will appear in the Federal Register within a few days. A supply of printed copies of the amendment to section 10(c) will be furnished your Bank as soon as they are available. Please wire the number of copies that you will need for distribution and supply purposes.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on May 5, 1955, were approved unanimously.

The meeting then adjourned.



M. Carpenter
Secretary