Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, June 8, 1955. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Vardaman
Mr. Robertson

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. Dembitz, Assistant Director, Division of International Finance
Mr. Hackley, Assistant General Counsel
Mr. Chase, Assistant General Counsel
Mr. Cherry, Legislative Counsel
Mr. Molony, Special Assistant to the Board

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:

Appointments, effective upon the respective dates of assuming duties

Name and title	Division	Type of appointment	Basic annual salary
Edna Louise Kehr, Clerk-Typist	Research and Statistics	Regular	$2,950
Roland A. Coluzzi, Elevator Operator	Administrative Services	Temporary (three months)	2,560
W. Dale Trimmer, Assistant Manager, Cafeteria	Administrative Services	Regular	3,410

Salary increases, effective June 19, 1955

Name and title	Division	Basic annual salary From	To
	Research and Statistics		
Bernard N. Freedman, Economist		$6,540	$6,740
Wilellyn Morelle, Economist		5,185	5,310
Mary F. Weaver, Clerk		4,295	4,420
Mary White, Clerk		4,160	4,410
	International Finance		
Mary M. Maroney, Economist		5,685	5,810
	Administrative Services		
Donald W. Moon, Purchasing Assistant		4,455	4,580
Mildred Tydings, Manager, Cafeteria		5,560	5,685

Approved unanimously.

Memorandum dated May 26, 1955, from Mr. Leonard, Director, Division of Bank Operations, stating that the application of Robert E. Sherfy, Analyst in that Division, for retirement under the Board Plan of the Federal Reserve Retirement System had been approved, effective June 1, 1955.

Noted.

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

> Reurtel June 2, 1955, Board approves designation of Walter F. O'Neil as special assistant examiner for the Federal Reserve Bank of Boston for the specific purpose of rendering assistance in the examinations of Depositors Trust Company, Augusta, Maine; The Merrill Trust Company, Bangor, Maine; Connecticut Bank and Trust Company, Hartford, Connecticut; and Rhode Island Hospital Trust Company, Providence, Rhode Island.

Approved unanimously.

Letter to Mr. Stetzelberger, Vice President, Federal Reserve Bank of Cleveland, reading as follows:

Reference is made to your letter of May 25, 1955, recommending that the Board reconsider the application of The Peoples Bank of Dayton, Dayton, Ohio, for permission to establish a branch in the vicinity of 3550 South Dixie Drive, Moraine Township, Montgomery County, Ohio, and approve the proposal provided the branch is established by March 7, 1956, as more time is required to obtain rezoning of the location and that the capital structure of the bank be increased by not less than $200,000 from the sale of new common shares of stock and $50,000 by retained earnings.

Consideration has been given to all of the information submitted with respect to the condition, management, and past record of the bank. As you are aware, the capital structure of the institution has failed to keep pace with the expansion in business despite the sale of moderate amounts of additional stock from time to time. A very liberal dividend policy has been followed and it is believed that the additional capital proposed by the Board is desirable irrespective of the expansion of business expected from the proposed new branch. In the circumstances the Board of Governors extends to March 7, 1956, the time within which the bank may establish the branch in the vicinity of 3550 South Dixie Drive, Moraine Township, Montgomery County, Ohio, but does not feel justified in modifying the requirement for the injection of not less than $250,000 of additional capital funds through the sale of common stock as provided in its letter of April 7, 1955.

Approved unanimously.

Letter to The Centerville National Bank, Centerville, Iowa, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as registrar of stocks and bonds. The exercise of such authority, in addition to that heretofore granted to act as trustee, executor, administrator, guardian of estates, and receiver, shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers which The Centerville National Bank is now authorized to exercise will be forwarded to you in due course.

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

Telegram to Mr. Perrin, Federal Reserve Agent, Federal Reserve Bank of Minneapolis, authorizing, subject to the following condition, the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to First Bank Stock Corporation, Minneapolis, Minnesota, entitling such organization to vote the stock which it owns or controls of First Westside National Bank of Great Falls, Great Falls, Montana, at all meetings of shareholders of such bank:

Prior to issuance of general voting permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (FRLS #7190). In order to eliminate any possible question concerning authority of applicant's officers because resolution set forth in Exhibit C of application was adopted prior to previous application, please request applicant to furnish as soon as practicable two certified copies of resolution of its board of directors ratifying all action taken by its officers in obtaining permit authorized herein.

Approved unanimously.

Letter to Mr. Rouse, Vice President, Federal Reserve Bank of New York, reading as follows:

With your letter of May 25, 1955, was enclosed a request of May 23, 1955, from Simpson, Thacher & Bartlett, New York City, Counsel for American Gas and Electric Company, for the Board's views as to whether the "American Gas and Electric System Key Employee Stock Purchase Plan - 1955" contravenes the Board's Regulations T or U. You enclosed also a copy of the Company's registration statement under the Securities Act of 1933, which contained copies of the documents to be used in making the plan effective.

Briefly, the plan provides that certain employees of the Company and of its subsidiary companies may purchase outstanding shares of the Company's registered common stock in amounts limited by the particular employee's annual compensation. It appears that a stock purchase by each employee participating in the plan will be financed by (1) a 3 per

cent down payment from the employee; (2) a 3 1/2 per cent per annum loan maturing in 10 years made to the employee by a bank in an amount not exceeding the maximum amount permissible under Regulation U; and (3) a non-interest bearing advance to the employee from his employer maturing in 10 years in an amount equal to the difference between the total cost of the shares purchased by the employee and the employee's down payment plus the bank loan.

It appears further that the bank loans just mentioned will be made by the Manufacturers Trust Company, New York City, which, through its trust department, will act as "custodian" under the plan. As custodian, the bank will use the proceeds of the financing described above to purchase in its name or the name of its nominee the shares subscribed by a participating employee. Such purchases will be made through a broker or directly from a seller. The shares so purchased will be held by the custodian until the employee shall have paid the interest and principal amount due on the bank loan and the amount of the employer's advance. The plan specifically provides that, prior to the payment of the interest and principal amounts due on the bank loan, such shares "shall be held by the Custodian for the benefit and interest of the Bank as collateral security for the Bank Loan." The plan also requires the participating employee to make payments on the bank loan and the employer's advance to the bank, as custodian, and makes provision for distribution of such payments by the custodian between the two indebtednesses of the employee.

Upon a participating employee's default on his loan or advance, if he should die or otherwise cease to be an employee, or in event of his bankruptcy or similar circumstances, provision is made in the plan for the sale of the collateral by the bank, in its capacity as custodian, and for the application by it of the proceeds (1) to the cost and expense of such sale, (2) to payment of the bank loan, and (3) to payment of the employer's advance. Any remainder would be paid to the employee.

While the foregoing is not a full explanation of all the details of the plan, it does describe salient features thereof.

On the basis of the Board's understanding of the information submitted, the Board is of the opinion that the operation of the plan would not involve any contravention of Regulation T. Neither the bank nor any of the employers would be subject to Regulation T, and the plan would not involve any extensions of credit or arrangements therefor by brokers or dealers subject to that regulation. The operation of the plan also would not involve any activity contrary to Regulation U. The bank

would loan no more than the maximum permitted by Regulation U, and its security interest in the collateral would be prior to any security interest therein which the Company or any of its subsidiaries might have. Of course, if the plan in actual operation should involve features not apparent from the information submitted, it might become necessary to reexamine the matter in the light of the then prevailing circumstances.

Approved unanimously, with a copy to the Securities and Exchange Commission.

Letter to Mr. Johns, Assistant Vice President, Federal Reserve Bank of St. Louis, reading as follows:

Reference is made to your letter of May 27, 1955, advising of the new comprehensive hospital-surgical plan being made available to the officers and employees at the Louisville Branch.

The Board of Governors interposes no objection to the assuming by the Federal Reserve Bank of St. Louis of the increased expenses involved in connection with the additional benefits being offered as described in your letter.

Approved unanimously.

Reference was made to a draft of letter to the Federal Reserve Bank of Chicago, which had been circulated to the members of the Board, which would approve the payment of salaries to painters and a plumber according to rates established by the most recent contracts between the Building Managers' Association of Chicago and the respective building trades unions in that city.

Governor Balderston said that Mr. Mitchell, Vice President of the Reserve Bank, who was in the Board's offices today, advised that union pressures in Chicago were very strong, that maintenance employees were highly organized, and that the Chicago Reserve Bank had been discussing

the possibility of a separate salary schedule for non-clerical workers. He also noted that the salary rates proposed by the Reserve Bank for the painters and plumber were about 10 per cent below the union rates, presumably on account of the fringe benefits accruing to Reserve Bank personnel.

While there was general agreement that, as a practical matter, it probably was necessary for the Reserve Bank to meet union rates, some concern was expressed regarding the internal alignment of salaries at the Reserve Bank, that is, between employees paid according to the union rates and other personnel. A question was also raised as to whether the painting and plumbing jobs at the Reserve Bank were strictly comparable to the outside jobs covered by the union scale, particularly since the persons at the Reserve Bank were assured of steady employment.

At this point Mr. Sprecher, Assistant Director of the Division of Personnel Administration, was called into the meeting. He was advised of the points which had been discussed by the Board and that the Board wished to defer action on the request of the Chicago Bank until tomorrow when other members of the Board would be present. He was requested, in the meantime, to talk with appropriate persons at the Reserve Bank with a view to obtaining more information about the questions which were raised at this meeting.

Governor Vardaman said that he would not be present at the Board meetings the rest of this week, that he would be willing to go along with whatever conclusion was reached by the other members of the Board,

but that he thought there was a real question involved in paying certain employees of a Reserve Bank according to rates of compensation fixed by union agreements unless appropriate measures were taken to assure that other employees in the Reserve Bank were given equitable treatment.

Mr. Sprecher then withdrew from the meeting.

Prior to this meeting there had been circulated to the members of the Board a draft of letter to Mr. Millard, Vice President of the Federal Reserve Bank of San Francisco, relating to an inquiry by the City National Bank of Anchorage, Anchorage, Alaska, a member bank, regarding the applicability to that institution of Regulation Q, Payment of Interest on Deposits. A memorandum from Mr. Hackley, dated June 1, 1955, which had been circulated along with the draft of letter, discussed the language of pertinent paragraphs of section 19 of the Federal Reserve Act and the legislative history of those provisions.

The matter was discussed and while it appeared to be the sentiment of the Board that it would be desirable for the member bank in Alaska to conform to the provisions of Regulation Q, it was recognized that from a legal standpoint the Board apparently was without power to require the bank to conform unless Alaska should attain statehood, in which case the provisions of the law and the regulation relating to payment of interest on deposits would become applicable. In the circumstances, certain changes in the language of the draft were suggested.

At the conclusion of the discussion, unanimous approval was given to a letter to Mr. Millard in the following form:

This refers to your letter of May 25, 1955, with its enclosures, addressed to Mr. Sloan, regarding the applicability of the Board's Regulation Q to the payment of interest on deposits by the City National Bank of Anchorage, Anchorage, Alaska. It is understood that you anticipate that the President of the National Bank will probably visit San Francisco in the relatively near future and will wish to discuss this matter.

From the enclosures with your letter, it appears that the question has been raised by the fact that the rules and regulations of the National Bank provide that savings deposits made during the first 15 days of a calendar quarter shall draw interest from the first day of that quarter, whereas Regulation Q permits a member bank to pay interest on savings deposits from the first day of a calendar month commencing a quarterly interest period only if received during the first 10 business days of such calendar month.

As you know, the twelfth and thirteenth paragraphs of section 19 of the Federal Reserve Act, relating respectively to payment of interest on demand deposits and on time and savings deposits, both expressly provide that the provisions of those paragraphs shall not apply to any deposit which is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia. A similar provision is contained in Regulation Q. In the circumstances, it is the Board's opinion that these provisions of the law and of Regulation Q are not applicable to deposits received at the office of the City National Bank of Anchorage in Anchorage, Alaska. In the event that Alaska should become a State, the law and regulation on this subject would then become applicable.

The Board of Governors will, of course, expect any member bank in Alaska, as elsewhere, to observe sound banking custom and usage; and it is possible that practices which do not conform to Regulation Q might in certain circumstances be such as to constitute unsafe or unsound banking practices and consequently be appropriate subjects of supervisory criticism.

Although the City National Bank of Anchorage has not formally requested an expression of the Board's views in this matter, the Board would have no objection to your advising the President of the National Bank of the substance of the Board's views as above stated in the event he should visit you for a discussion of this matter as indicated in your letter.

The following letters, which had been circulated to the members of the Board, were presented for consideration and the action taken in each case was as indicated:

Letter to Mr. Charles G. Young, Jr., Vice President and Trust Officer, City National Bank & Trust Company, Kansas City, Missouri, reading as follows:

> This refers to your letter of May 18, 1955, addressed to Mr. Masters, presenting certain questions with respect to the recent amendment to section 10(c) of Regulation F permitting the collective investment by national banks of pension and similar trusts without complying with the requirements and limitations contained in section 17 of Regulation F.
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> There is enclosed a printed copy of the amendment to section 10(c) which, you will note, becomes effective June 13, 1955. This amendment is in substantially the same form as the proposed amendment which appeared in the Federal Register except for the addition of Footnote 11a, which was added mainly to avoid any possible misunderstanding that a collective fund of the kind permitted by section 10(c)(ii) would be operating under "the rules and regulations...of the Board...pertaining to the collective investment of trust funds" and, therefore, would be exempt from taxation under section 584 of the Internal Revenue Code.
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> With respect to your specific problem as to interpreting the words "any common trust fund maintained and operated by the trustee" when included in a trust instrument, it seems probable that the intent of the settlor was to authorize investments in a common trust fund operated pursuant to section 17 of Regulation F and was not intended to include any other collective investment of trust funds. For the purposes of Regulation F the Board makes a clear distinction between (1) the collective investment of trust funds as permitted by section 10(c)(ii), and (2) the operation of a "common trust fund" under section 17. Therefore, authority contained in a trust instrument to invest trust funds in "any common trust fund maintained and operated by the trustee" cannot be said to authorize specifically the investment of funds collectively with funds of other similar trusts otherwise than in a common trust fund operated under section 17. In the absence of specific authorization in the trust instrument for the collective investment of trust funds, the grant

of investment authority absolutely to an investment committee, or the reservation of the power of supervision, and control by such committee, would not permit a national bank, even when directed by such authority, to invest collectively the funds of pension and similar trusts although such funds may, as heretofore, be invested in participations in a common trust fund operated by the bank.

Following comments by Messrs. Vest and Sloan regarding the questions raised by Mr. Young, including a statement that the reply was simply explanatory of the recently approved amendment to section 10(c) of Regulation F, the letter was approved unanimously, with a copy to the Federal Reserve Bank of Kansas City.

Letter for the signature of Chairman Martin to Mr. Harold E. Stassen, Director, Foreign Operations Administration, Washington, D. C., reading as follows:

Thank you for your letter of May 27 regarding the services that Mr. Yves Maroni of our staff has been providing as a FOA consultant in Cambodia. I am very pleased that Mr. Maroni's mission has been working out so well and that his services have proved so valuable.

It is noted that the Governor of the National Bank of Cambodia has asked to have Mr. Maroni return in the latter part of this year to provide further guidance to him, and that the FOA would like to be able to assure the Governor that Mr. Maroni's services will be available for this purpose. I regret that the Board is not in position to give an assurance to this effect so far in advance. However, as the time approaches when Mr. Maroni's services might again be needed in Cambodia, and assuming that your organization continues to feel the need of his services for this purpose, the Board will be glad to give further consideration to a request of this kind.

Approved unanimously.

Mr. Dembitz then withdrew from the meeting.

There had been sent to the members of the Board copies of a memorandum from Mr. Vest dated June 7, 1955, submitting a draft of testimony

to be given by Chairman Martin on June 13, 1955, before the Anti-trust Subcommittee of the House Committee on the Judiciary concerning Bill H. R. 5948, which would amend section 7 of the Clayton Act.

At the request of the Board, Mr. Vest reviewed the draft of testimony and stated that it was consistent with the letter-report to the Committee on the Judiciary concerning H. R. 5948 which the Board sent to the Bureau of the Budget for comment on May 20, 1955.

Governor Robertson also discussed the draft of testimony, particularly the position taken therein in favor of a procedure whereby the appropriate bank supervisory agency would be required to pass in advance on all bank mergers and consolidations but the Attorney General, if he had not been consulted by the supervisory agency and if he had not indicated an absence of objection, would continue to have full authority to institute proceedings under the Clayton Act. He pointed out that under present provisions of the Clayton Act certain Government agencies are authorized to pass upon proposed mergers and consolidations in various fields and the Attorney General is precluded from taking action after the agency has acted. While the proposed procedure might seem inconsistent with that situation, it was Governor Robertson's view that it was warranted by the fact that three bank supervisory agencies would be involved, with the resulting likelihood that there would be some lack of uniformity. He also felt that in the case of bank mergers and consolidations, enforcement of the Clayton Act should remain with the Department of Justice

because neither the Board nor the other supervisory agencies were experienced in the field of enforcement or possessed the necessary personnel.

In the course of a further discussion, during which Chairman Martin joined the meeting, Governor Vardaman stated that he agreed fully with the position outlined by Governor Robertson and that he would not want to see the Attorney General foreclosed from taking subsequent action to deal with abuses that might arise out of bank mergers and consolidations.

Governor Szymczak stated that his position with regard to H. R. 5948 was different, as he had indicated when the report to the House Committee was being considered by the Board. He recalled that Governor Mills also disagreed with the position taken by the majority of the Board. As to the draft of testimony, Governor Szymczak said that he had no comment to make.

Thereupon, the draft of testimony was approved, subject to certain editorial changes and other changes to be made by way of completing the factual statements included in the draft.

In this connection, it was reported that a representative of the Federal Deposit Insurance Corporation, who had received from the Bureau of the Budget a copy of the Board's proposed letter to the House Committee, had requested an advance copy of Chairman Martin's testimony and that Counsel for the Anti-trust Subcommittee also had requested copies

in advance for use in preparing for the hearing.

It was agreed that there would be no objection to furnishing the requested copies.

At the request of Governor Robertson, Mr. Vest outlined the provisions of the bank holding company bill introduced by Representative Spence (H. R. 6227) which would require that any bank holding company wishing to acquire bank stocks must obtain the Board's prior consent. He said that according to the provisions of the bill, the Board must consider the antitrust aspects of such a stock acquisition, but that there was no provision for submission by the Board to the Attorney General of cases where the Board thought that the question of lessening of competition might exist. Thus, if the Spence Bill were enacted and if legislation along the lines of the Board's proposal relating to bank mergers (which included a provision for submission by the bank supervisory agency of proposed bank mergers to the Attorney General) also were enacted, there might be some slight inconsistency between the two statutes. Mr. Vest added, however, that there was no reason why, under the bank holding company bill introduced by Representative Spence, the Board could not submit cases involving a lessening of competition through acquisition of stock to the Attorney General if it wished to do so.

Governor Robertson said that he did not think difficult problems of administration were likely to arise because of differences between the provisions of the Board's proposal regarding legislation on bank

mergers and whatever bank holding company legislation might eventually be enacted.

At the suggestion of Chairman Martin, it was understood that Governor Robertson would accompany him to the hearing on June 13.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 7, 1955, were approved unanimously.

The meeting then adjourned.

Assistant Secretary