

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, June 10, 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. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Bethea, Director, Division of Administrative Services
Mr. Vest, General Counsel
Mr. Sloan, Director, Division of Examinations
Mr. Kelleher, Assistant Director, Division of Administrative Services
Mr. Solomon, Assistant General Counsel

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Cleveland, Richmond, Atlanta, St. Louis, Minneapolis, Kansas City, and Dallas approving the establishment without change by the Federal Reserve Bank of Boston on June 6, by the Federal Reserve Bank of St. Louis on June 6 and 9, and by the other Federal Reserve Banks mentioned above on June 9, 1955, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Reference was made to a letter dated May 18, 1955, from Mr. Sproul, President of the Federal Reserve Bank of New York, regarding a possible rearrangement of staff assignments relating to Regulations T, Extension and

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Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange; and requesting the views of the Board as to what provision should be made in order to carry out those functions in a manner which would be most helpful to the Board. A draft of reply to Mr. Sproul had been prepared under the direction of Governor Szymczak and copies thereof had been sent to the members of the Board prior to this meeting, along with the incoming letter. The draft would take the position that in the past the cooperation of the New York Bank in these matters had been appreciated by the Board and that future staff assignments should be worked out with a view to providing even greater assistance.

Governor Szymczak said that after discussing the matter with Chairman Martin he talked with President Sproul, who stated that the Reserve Bank was trying to reorganize its staff work in this field at both the policy and the technical levels, that the Bank was somewhat doubtful as to how it should proceed, that some of the difficulty was attributable to the intermittent nature of problems having a relation to the margin regulations, and that there was also the question whether it was advisable to go further in the staff assignments than to provide personnel competent to assist technically in the interpretation of the regulations. Governor Szymczak then referred to an alternative draft of reply which had been prepared by Mr. Carpenter and which was intended to set forth more specifically

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the nature of the assistance from the Reserve Bank which would be helpful to the Board.

In a discussion of the matter, the view was expressed that it would be of advantage to the Board if it could receive as fully as possible such advice as the New York Bank was in a position to offer by reason of its close contacts with the principal securities exchanges, but that any letter to the Reserve Bank might make the point that policy decisions in regard to the margin regulations would, of course, be reserved to the Board of Governors.

At the conclusion of the discussion, unanimous approval was given to a letter to President Sproul over the signature of Chairman Martin in the following form:

This refers to your letter of May 18, 1955 regarding possible rearrangement of staff assignments at your Bank relating to Regulations T and U.

You refer to two areas or levels of study or action. One has to do with the detailed or mechanical administration of the regulations. The other is the policy level, which concerns efforts to assess the relations and interrelations between developments in the securities markets, margin requirements, the general credit situation, and the general economy. As you point out, the difficulties in both areas are increased by the intermittent nature of some of the problems and by the need for secrecy with respect to prospective action in this particularly sensitive area.

You indicate that some rearrangement of staff assignments having to do in part with these regulations is contemplated, that a clearer mandate would be helpful if the Board wishes to make more use of your position and situation to aid the Board in this responsibility, but that in any event an expression of the Board's views would assist in your immediate problem of staff assignments.

The wholehearted cooperation and collaboration of your Bank have for many years been of great assistance to the Board

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in the discharge of its responsibilities in this field. Your close contact with the principal securities exchanges and your knowledge of the problems which have arisen in connection with the technical administration of the regulations have been of particular help. It would be beneficial if arrangements would contemplate continued assistance to the Board by your Bank on all aspects of the regulations, including such recommendations to the Board on either administration or policy as may seem appropriate from time to time. The Board believes it is especially important that the organization of the staff of your Bank be such that at all times it will have officers and other staff members available who will be thoroughly familiar with the regulations and their history and the problems that have arisen in their administration and who will be thoroughly versed in the current operating practices and procedures of the exchanges and brokerage offices.

Mr. Solomon then withdrew from the meeting.

In accordance with the usual practice, the Division of Examinations had sent to each member of the Board a copy of a memorandum summarizing information from the report of examination of the Federal Reserve Bank of St. Louis which was made by the Board's examiners as of November 29, 1954. Among other things, the Division's memorandum, dated June 6, 1955, referred to certain expenditures for theater and baseball tickets which were incurred by the Reserve Bank in connection with joint meetings of the boards of directors of the head office and branches held on November 12, 1953, and on June 10, 1954. Governor Robertson had suggested that there be a discussion of such expenditures at a meeting of the Board.

Consideration of the expenditures in the light of the principles involved brought out the difficulty in distinguishing between proper and improper entertainment expenses, particularly when such expenses are

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incurred on behalf of Reserve Bank and branch directors who contribute their services to the System without substantial compensation. It was the general opinion, nevertheless, that whereas luncheons, dinners, and transportation costs incident to directors' meetings would seem proper, a somewhat different view should be taken with regard to expenses for entertainment of a kind having only a remote relationship to the meetings. The suggestion was made that a letter to the Federal Reserve Banks be drafted for the Board's consideration which would refer to the propriety of various kinds of expenditures of an entertainment nature and which would be specific enough to provide adequate guidance. Some feeling was expressed, however, that before sending any such letter the Board should have a general discussion of the subject with the Presidents' Conference in order that it might have the benefit of the Presidents' views. This led to the question of what communications on this subject the Board might have sent to the Reserve Banks in the past and the Secretary was requested to review the record on this point.

With regard to the St. Louis expenditures, Governor Robertson and certain other members of the Board were of the opinion that a letter should be addressed to the Reserve Bank to complete the record. There was a minority opinion to the effect that it would be preferable to deal with the matter on a System basis through a general letter or through discussion with the Presidents. Certain suggestions were made regarding the content of a letter which might be sent to the St. Louis Bank, and it was understood

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that the Secretary would draft a letter in the light of these suggestions for consideration at another meeting of the Board.

Governor Robertson then reviewed the plans incident to the operations of the Board at its relocation center in Richmond during the civil defense exercise to be held June 15 through 17, 1955.

During the course of Governor Robertson's comments, Mr. Leonard, Director of the Division of Bank Operations, joined the meeting and at the conclusion of a discussion of the relocation plans he withdrew from the meeting. Messrs. Thurston, Riefler, Bethea, and Kelleher also withdrew at that point, and Messrs. Hexter, Assistant General Counsel, and Hooff, Assistant Counsel, entered the room.

There had been sent to the members of the Board copies of a memorandum from Mr. Hexter dated June 9, 1955, regarding questions raised in connection with the amendment of section 10(c) of Regulation F, Trust Powers of National Banks, scheduled to become effective June 13, 1955. The memorandum dealt with certain questions which had been raised by parties representing member banks and the American Bankers Association who stated that they had interpreted the proposed amendment, as it first appeared in the Federal Register, as meaning that collectively invested funds of pension trusts would thereafter constitute "common trust funds" within the purview of section 584 of the Internal Revenue Code of 1954, and that such funds would therefore be exempt from Federal income taxation. When the amendment to section 10(c) was finally adopted and published in the

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Federal Register on May 14, 1955, footnote 11a was inserted to bring out that the permission contained in the amendment for collective investment of pension trust funds was not intended to confer such exemption. Some question was raised by one of the parties as to the validity of the footnote under the Administrative Procedure Act, since it was not contained in the proposed amendment as originally published.

At the request of the Board, Mr. Vest commented in some detail on the purposes of the amendment and the steps which were taken prior to its final adoption by the Board. He pointed out that it was never intended that this amendment would confer any tax exemption, that the Board's regulations relating to common trust funds which do contain an exemption are found in section 17 of Regulation F, and that footnote 11a was inserted as the result of inquiries concerning the income tax aspects of the proposed amendment to indicate clearly that the Board did not intend to confer any further tax exemption.

Mr. Vest also said that yesterday representatives of the American Bankers Association, after contacting Governor Balderston by telephone, visited the Legal Division to suggest that the effective date of the amendment be deferred, but that at the conclusion of the conversation they indicated that they were not disposed to make such a request of the Board, although they hoped this would not foreclose further consideration by the Board of the questions which had been raised concerning the tax aspects. Mr. Vest felt that it would be unfortunate to defer the effective date

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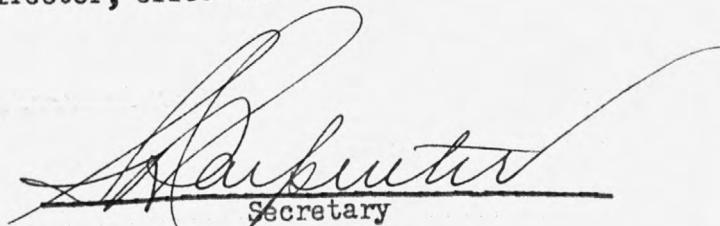
because certain banks had been awaiting this amendment for some time and were prepared to take actions pursuant to the amended regulation.

There followed some discussion of the circumstances involved and it was the unanimous view of the members of the Board that no action should be taken to postpone the effective date of the amendment of section 10(c). At the same time, it was felt that the effects of the amendment could well be studied over a period of time so that the Board could determine whether any further amendment or interpretation would be advisable. Governor Balderston suggested that continuing study also be given to the provisions of section 17 of Regulation F with a view to considering the advisability of increasing the current limitation (\$100,000) on trust funds which may be invested under the terms of that section.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 9, 1955, were approved unanimously.

The meeting then adjourned.

Secretary's Note: Mr. Philip I. Welk, President of the Preston-Shaffer Milling Company, Walla Walla, Washington, having been appointed a Class C director of the Federal Reserve Bank of San Francisco and having submitted his resignation as a director of the Portland Branch, a letter was sent to Mr. Welk today over the Chairman's signature accepting his resignation as branch director, effective May 23, 1955.


Secretary