

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, July 1, 1955. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Riefler, Assistant to the Chairman
 Mr. Thomas, Economic Adviser to the Board
 Mr. Leonard, Director, Division of
 Bank Operations
 Mr. Vest, General Counsel
 Mr. Sloan, Director, Division of
 Examinations
 Mr. Dembitz, Assistant Director, Division
 of International Finance
 Mr. Solomon, Assistant General Counsel
 Mr. Goodman, Assistant Director, Division
 of Examinations
 Mr. Tamagna, Chief, Financial Operations
 and Policy Section, Division of
 International Finance

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:

Memorandum dated June 22, 1955, from Mr. Young, Director, Division of Research and Statistics, recommending that the resignation of Lynn J. Snyder, Clerk in that Division, be accepted effective July 6, 1955.

Approved unanimously.

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

In accordance with the request contained in your letter of June 21, 1955, the Board approves the designation of Robert Lewis Miller as a Special Assistant Examiner for the Federal Reserve Bank of Richmond.

It is noted that Mr. Miller is indebted to the Virginia Trust Company, Richmond, Virginia, a nonmember bank, in the amount of \$700, and that the debt is secured by a lien on an automobile and is payable in monthly installments. It is assumed, of course, that he will not be authorized to participate in any examination of the Virginia Trust Company, Richmond, Virginia, until his indebtedness to the bank has been liquidated or otherwise eliminated.

Approved unanimously.

Letter to Mr. Leedy, President, Federal Reserve Bank of Kansas City, reading as follows:

The Board of Governors approves the payment of salaries to the following officers for the period from July 1, 1955, through December 31, 1955, at the rates indicated which are the rates fixed by the board of directors as reported in your letter of June 15, 1955.

<u>Name</u>	<u>Title</u>	<u>Salary</u>
Howard W. Pritz	Cashier, Omaha Branch	\$10,000
Jerry R. Zahourek	Assistant Cashier, Denver Branch	8,000

Approved unanimously.

Letter to Mr. Hodgkinson, Chairman, Federal Reserve Bank of Boston, reading as follows:

At the completion of the examination of the Federal Reserve Bank of Boston, made as of January 4, 1955, by the Board's examiners, a copy of the report of examination was left for your information and that of the directors. The Board will appreciate advice that the report has been considered by the Board of Directors, and any comments you may care to offer regarding discussions with respect to the examination will also be appreciated.

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A copy of the report was also left for President Erickson, and the Board has noted his letter of June 24, 1955, to Mr. Sloan, Director of the Board's Division of Examinations, regarding actions taken as a result of the examination.

Approved unanimously.

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

Enclosed is a photostat of an advertisement of the Beacon Finance Company, Boston, Massachusetts, that appeared in The Wall Street Journal for June 10, 1955.

The advertisement, of course, suggests several questions concerning the Board's Regulations T and U; and it would be helpful if your Bank could learn something of the details concerning the financing advertised by the Beacon Finance Company. For example, it would be interesting to know whether such financing covers both registered and unregistered securities; how the purchases are actually negotiated or arranged; and how the Beacon Finance Company may finance that part of its business so advertised.

With respect to the latter point, the Board's letter to your Bank of June 21, 1946, indicated that proposed loans by the United States Trust Company, Boston, Massachusetts, to a finance company which was interested in making loans secured by stocks for the purpose of purchasing or carrying registered stocks, should be considered as subject to Regulation U if the bank loans were secured directly or indirectly by any stock. The Board's views in this connection were published in the 1946 Federal Reserve Bulletin, p. 874 (FRLS #8131).

Receipt of such information as your Bank may be able to supply in this connection will be appreciated.

Approved unanimously, following a discussion during which it was stated that the advertisement referred to in the letter had been brought to the Board's attention by the Securities and Exchange Commission and by an officer of the Federal Reserve Bank of New York, to whom the matter had been referred by the New York Stock Exchange.

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

Reference is made to Mr. Filgate's memorandum, dated June 16, 1955, a copy of which was forwarded for the files of the Board of Governors, containing an extract from the weekly Bulletin of the State of New York Banking Department dated June 10, 1955, stating that approval of State Authorities had been given to the change of location of a branch of Manufacturers Trust Company, New York, New York, from 1600 Sheepshead Bay Road, Borough of Brooklyn, to 1658-60 Sheepshead Bay Road, a distance of not more than 200 feet.

Since it appears that this move would constitute a mere relocation of an existing branch in the immediate neighborhood without affecting the nature of business or customers served, we concur in the opinion expressed in the memorandum that the approval of the Board of Governors is unnecessary.

Reference is made to the information submitted by your office concerning the removal of a branch of the Manufacturers and Traders Trust Company, Buffalo, New York, from 1500 Clinton Avenue to 644-46 Bailey Avenue, Buffalo, New York, a distance of about 100 feet.

Since it appears that this move would constitute a mere relocation of an existing branch in the immediate neighborhood without affecting the nature of business or customers served, we concur in the opinion expressed in your letter of June 15, 1955, to Mr. M. M. Myers, Assistant Cashier of the Buffalo Branch of the Federal Reserve Bank of New York, that the approval of the Board of Governors is unnecessary.

Approved unanimously.

Letter to Bank of America, New York, New York, reading as follows:

The Board of Governors of the Federal Reserve System authorizes Bank of America, New York, New York, pursuant to the provisions of Section 25(a) of the Federal Reserve

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Act and the Board's Regulation K, to establish a branch at No. 9 Boulevard de la Madeleine, Paris, Republic of France, and to operate and maintain such branch subject to the provisions of such section and regulation; upon condition that unless the branch is actually established and opened for business on or before May 1, 1956, all rights granted hereby shall be deemed to have been abandoned, and the authority hereby granted shall automatically terminate on such date.

It is understood, of course, that no change will be made in the location of such branch without the prior approval of the Board of Governors.

Approved unanimously, for transmittal through the Federal Reserve Bank of New York, with a copy to the Federal Reserve Bank of San Francisco.

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

In view of the circumstances outlined in your letter of June 21, 1955, and the Reserve Bank's recommendation, the Board of Governors further extends until December 30, 1955, the time within which The Cleveland Trust Company, Cleveland, Ohio, may establish a branch at the corner of Wolf and Dover Center Roads, Bay Village, Ohio.

Approved unanimously.

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

As recommended in your letter of June 15, 1955, the Board of Governors extends to January 5, 1956, the time within which the Farmers & Merchants Bank of East Long Beach, Long Beach, California, may establish a branch in the vicinity of the intersection of Garden Grove Boulevard and Bowen Street in the unincorporated community of Garden Grove, Orange County, California.

Please advise the bank of the Board's action.

Approved unanimously.

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Letter to the Presidents of all Federal Reserve Banks reading as follows:

Under a plan developed in consultation with representatives of the Federal Reserve System, the Treasury has formulated a proposal for a change in procedure for withdrawing funds from Tax and Loan Accounts. The Fiscal Assistant Secretary of the Treasury has sent a letter to the eight Federal Reserve Banks concerned describing the plan. Under the changed procedure, a new classification of Tax and Loan depositories would be established, to be known as Class C banks, consisting of banks with total deposits of \$500 million or more. Calls upon Class C depositories would at times be made early in the morning for deposit in the Treasurer's account at the Federal Reserve Banks on the same day.

If and when the plan is put into effect, it is quite possible that a call made upon Class C banks on a Wednesday will make it difficult for some banks to adjust their reserve positions for the reserve computation period ending on that day. Accordingly, the Board contemplates adding a supplementary paragraph to present Paragraph C to the existing rules for waiver of penalties for deficiencies in member bank reserves prescribed in the Board's letter of October 10, 1949 (S-1123, FRLS #6121). Paragraph C and the contemplated supplementary paragraph are quoted below:

C. When a member bank is deficient in reserves during any other reserve computation period, to the extent that the deficiency is offset by excess reserves during the immediately following reserve computation period, provided that such deficiency does not exceed two per cent of the member bank's required reserves.

C-1. In addition to and notwithstanding the percentage limitations imposed in Paragraph C, any penalty on a deficiency incurred by a central reserve city or reserve city bank as a result of an immediate withdrawal by the Treasury from the member bank's Tax and Loan deposit account on the last business day of the weekly computation period may be waived to the extent that the deficiency is offset by excess reserves in the immediately following reserve computation period or in the first subsequent reserve computation period in which there was not such an immediate withdrawal on the last business

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day; and a deficiency resulting from any such Treasury withdrawal shall not prevent the waiver of a penalty for a reserve deficiency in the preceding reserve computation period if such penalty would otherwise have been subject to waiver pursuant to Paragraph C.

The Board will appreciate your views as to the desirability of its adopting the above indicated amendment to the existing rules.

Approved unanimously.

There were presented telegrams to the Federal Reserve Banks of Chicago, St. Louis, and Kansas City approving the establishment without change by the Federal Reserve Bank of St. Louis on June 27, by the Federal Reserve Bank of Kansas City on June 28, and by the Federal Reserve Bank of Chicago on June 30, 1955, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Reference was made to the following draft of letter to Mr. Armistead, Vice President of the Federal Reserve Bank of Richmond, of which copies had been sent to the members of the Board along with copies of the incoming letter:

Reference is made to your letter of June 28, 1955, recommending that an extension of twelve months' time be granted to Bank of Commerce and Trusts, Richmond, Virginia, in which to establish a branch at the southeast corner of Roseneath Road and Broad Street. The establishment of this branch was approved by the Board on July 2, 1954, with the provision that it be established within twelve months from that date.

From the information submitted it would appear that no definite action has been taken to establish the branch, and, in view of the unusual delay as well as the apparent uncertainty which exists with respect to this proposal, the Board would prefer to reconsider the case if and when the bank is ready to proceed promptly and is able to estimate with some accuracy the time when the branch can be opened for business.

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At the request of the Board, Mr. Sloan commented on the situation, stating that the reason for delay in establishing the branch was attributable to the fact that Bank of Commerce and Trusts had been considering a merger with any one of several larger banks in Richmond. It now appeared, he said, that the institution might decide to continue in its present status if it was able to strengthen the management. If such a course were decided upon, he felt that the bank should be permitted to establish the proposed branch; however, if a merger should take place, the branch might not be desired. In view of the unsettled situation, it was the opinion of the Division of Examinations, Mr. Sloan said, that an extension of time within which to establish the branch should not be granted and that the member bank should be informed that the Board would be willing to reconsider the matter when the plans for a branch became better developed.

Thereupon, the letter to Vice President Armistead was approved unanimously.

The following draft of letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., which had been circulated to the members of the Board, was presented for consideration:

It is respectfully requested that you place an order with the Bureau of Engraving and Printing for printing 454,280,000 Federal Reserve notes (single units) of the 1950 Series during the fiscal year ending June 30, 1956, in the amounts and denominations shown below for the various Federal Reserve Banks:

	<u>Denomi- nations</u>	<u>Number of notes</u>	<u>Amount</u>
Boston	\$5	11,520,000	\$57,600,000
	10	26,640,000	266,400,000
	20	360,000	7,200,000
	100	144,000	14,400,000

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	<u>Denomi- nations</u>	<u>Number of notes</u>	<u>Amount</u>
New York	\$5	54,640,000	\$273,200,000
	10	75,600,000	756,000,000
	20	17,288,000	345,760,000
	50	2,736,000	136,800,000
	100	288,000	28,800,000
Philadelphia	5	17,560,000	87,800,000
	10	6,480,000	64,800,000
Cleveland	10	3,240,000	32,400,000
	20	2,880,000	57,600,000
Richmond	5	11,800,000	59,000,000
	10	9,360,000	93,600,000
	20	15,760,000	315,200,000
	50	432,000	21,600,000
Atlanta	5	17,560,000	87,800,000
Chicago	5	19,800,000	99,000,000
	10	46,720,000	467,200,000
	20	21,600,000	432,000,000
	50	114,000	7,200,000
St. Louis	5	3,240,000	16,200,000
	10	9,720,000	97,200,000
	20	5,760,000	115,200,000
	50	288,000	14,400,000
Kansas City	5	7,560,000	37,800,000
	10	9,000,000	90,000,000
	20	11,160,000	223,200,000
Dallas	5	4,320,000	21,600,000
	10	4,680,000	46,800,000
	20	1,800,000	36,000,000
	50	576,000	28,800,000
	100	114,000	14,400,000
San Francisco	5	14,400,000	72,000,000
	10	7,560,000	75,600,000
	20	11,520,000	230,400,000

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	<u>Denomi- nations</u>	<u>Number of notes</u>	<u>Amount</u>
Totals	\$5	162,400,000	\$812,000,000
	10	199,000,000	1,990,000,000
	20	88,128,000	1,762,560,000
	50	4,176,000	208,800,000
	100	576,000	57,600,000
		<u>454,280,000</u>	<u>\$4,830,960,000</u>

A question was raised by Governor Balderston as to whether the building up of a large reserve supply of currency posed any serious problems in the event of technical improvements, such as the development of an electronic device for sorting and counting currency.

In response, Mr. Leonard stated that the existing program for a reserve currency supply was directed toward a one-year supply of \$1 bills and a two-year supply in the denominations from \$5 through \$100. In the denominations of \$10 and up, this goal had been achieved and in fact exceeded, he said, so that the order for Federal Reserve notes for the fiscal year 1956 was designed principally to equalize supplies of notes, increase the reserve supply of \$5 notes, and enable the Treasury to build up its reserve supply of \$1 bills. While acknowledging that the accumulation of currency to the extent indicated posed certain problems of the kind to which Governor Balderston referred, Mr. Leonard pointed out that experience during Operation Alert 1955 revealed how extensive damage from enemy attack upon certain cities would reduce the stocks of available currency to minimum short-run needs.

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In further response to Governor Balderston, Mr. Leonard described recent technological improvements in currency manufacture at the Bureau of Engraving and Printing, some of which had a relationship to the detection of counterfeit currency and thus related also to the project of developing a satisfactory machine for counting and sorting currency automatically.

Thereupon, the letter to the Comptroller of the Currency was approved unanimously.

Messrs. Sherman and Leonard then withdrew from the meeting.

Under date of June 13, 1955, Messrs. Neal, First Vice President of the Federal Reserve Bank of Boston, and Solomon, Assistant General Counsel for the Board (in their respective capacities as Chairman of the Special Committee on Foreign Operations of American Banks and Chairman of the Legal Committee on Foreign Operations of American Banks) submitted by memorandum to Governor Szymczak a draft revision of the Board's Regulation K, Banking Corporations Authorized to Do Foreign Banking Business under the Terms of Section 25(a) of the Federal Reserve Act. At Governor Szymczak's request, copies of the memorandum and the draft regulation were sent to all of the members of the Board. The memorandum stated that the Special and Legal Committees met on April 28, 1955, for discussion of a draft regulation which the Legal Committee had prepared to carry out the recommendations in the Special Committee's report of November 22, 1954; that as a result of the meeting the draft was changed slightly; and that the revised

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draft (submitted with the June 13 memorandum) carried out satisfactorily the recommendations of the Special Committee. The draft also included alternative versions on the points as to which differences of opinion were expressed in the report of the Special Committee. The memorandum suggested that in view of the special interest of the Edge corporations and the corporations operating under agreements with the Board of Governors pursuant to section 25 of the Federal Reserve Act, such corporations be afforded an opportunity to comment on any draft revision of Regulation K before it was published in the Federal Register for general comments.

Mr. Solomon had also sent to the members of the Board, under date of June 29, 1955, copies of a document giving a comparison of the present Regulation K and the draft revision.

At the request of the Board, Mr. Solomon reviewed the reasons for the study by the Special Committee and the various steps that had been taken leading up to the submission of the draft revision of Regulation K. With regard to the recommendations of the Special Committee, as reflected in the draft regulation, he called particular attention to two problems, the first of which concerned the Special Committee's recommendation that the distinctions in the present regulation between investment banking and deposit banking be made clearer and more precise. That had been done, he said, in the draft regulation. The other problem concerned the question of what activities within the United States are appropriate and inappropriate for an Edge corporation. In this respect also, he felt that the

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draft regulation gave a better picture, recognizing the difficulty of attempting to cover all phases of the problem by regulation. Mr. Solomon also said that while there were certain differences of opinion within the Special Committee, the study concluded with a surprising degree of unanimity of opinion.

Mr. Goodman then made a statement in which he emphasized the difficulties under the present Regulation K in determining the proper sphere of activities for an Edge corporation and the problems confronting the Special Committee in attempting to define what kind of operations in the United States are incidental to an international or foreign banking business.

Mr. Vest said that in his opinion the draft revision of Regulation K went far toward meeting the problems of the past in a clear manner and that it was an excellent start on a very good form of regulation.

With reference to the submission of the draft to Edge corporations and "agreement" corporations for their comments, Mr. Solomon suggested that the Board might want first to decide on the points where there was a difference of opinion within the Committee and where different versions of the draft regulation had been presented. There was discussion of this matter and it was the consensus that it would be beneficial to have the views of Edge and "agreement" corporations on the points covered by alternative language before the draft was published in the Federal Register.

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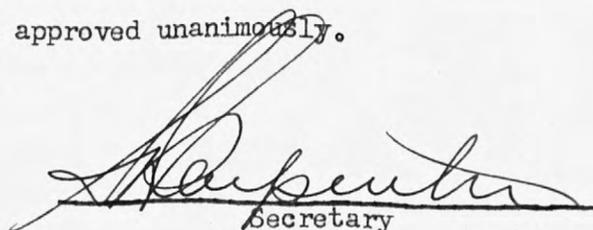
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Governor Robertson said it was his tentative view that many of the difficulties which had arisen in the field of foreign financing were attributable to a lack of uniformity in the powers of Edge corporations, "agreement" corporations, and foreign branches of American banks. These differences, he pointed out, made supervision in the area extremely difficult. As one step in meeting this problem, he suggested that the Board consider preparing for submission at the next session of Congress legislation broadening the powers of American banks in respect to their foreign operations along the lines suggested in the Special Committee report. However, before proposing such legislation, he felt that the Board should request the views of interested parties, perhaps in conjunction with a request for views regarding the draft revision of Regulation K.

Following a discussion of some of the more controversial issues dealt with in the Special Committee report, particularly the problem of defining the appropriate areas of activity for an Edge corporation in the United States, it was agreed unanimously that the staff, in consultation with Mr. Neal, would edit the draft of regulation in the light of the discussion and that the revised draft should be sent to existing Edge and "agreement" corporations as a draft which had been submitted to the Board but which the Board had not yet considered, and on which their comments were desired before publication of the draft in the Federal Register.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 30, 1955, were approved unanimously.

The meeting then adjourned.


Secretary