

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

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

Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Vest, General Counsel
Mr. Sloan, Director, Division of Examinations
Mr. Johnson, Controller, and Director, Division of Personnel Administration
Mr. Hackley, 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:

Letter to Mr. Brawner, Federal Reserve Agent, Federal Reserve Bank of San Francisco, reading as follows:

Reference is made to your letter of August 17, 1955, requesting an expression from the Board of Governors with respect to the contemplated assignment of Mr. Dorris B. Atkins as Head of the Collection Department and his continuing as an Alternate Assistant Federal Reserve Agent.

The Board of Governors will interpose no objection to Mr. Atkins' serving as Head of the Collection Department while serving also as an Alternate Assistant Federal Reserve Agent. It is noted from your letter that it is the feeling at the Reserve Bank that the duties of these assignments would not be inconsistent.

Approved unanimously.

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Letters to The First National City Bank of New York, New York, New York, reading as follows:

The Board of Governors of the Federal Reserve System authorizes The First National City Bank of New York, New York, New York, pursuant to the provisions of section 25 of the Federal Reserve Act, to establish a branch on, or adjacent to, the Avenida Insurgentes, Mexico City, Mexico, and to operate and maintain such branch subject to the provisions of such section; upon condition that, unless the branch is actually established and opened for business on or before September 1, 1956, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted shall automatically terminate on such date.

Please advise the Board of Governors, in writing, through the Federal Reserve Bank of New York, when the branch is opened for business, together with information as to its location in Mexico City. 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.

The Board of Governors of the Federal Reserve System authorizes The First National City Bank of New York, New York, New York, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish a branch in Maracaibo, Republic of Venezuela, and to operate and maintain such branch subject to the provisions of such section; upon condition that, unless the branch is actually established and opened for business on or before September 1, 1956, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted shall automatically terminate on such date.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the branch is opened for business, together with information as to its location in Maracaibo. 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.

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Letter to the Board of Directors, Central Trust Company Rochester, N. Y., Rochester, New York, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch by the Central Trust Company Rochester, N. Y., Rochester, New York, in the Scheutzen Plaza shopping center at 303 East Ridge Road, Rochester, New York, provided the branch is established within one year from the date of this letter.

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

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

The Board of Governors of the Federal Reserve System has considered the recommendation of the Board of Directors of your Bank, contained in your letter of August 25, 1955, and, pursuant to the provisions of Section 19 of the Federal Reserve Act, grants permission to "National Bank of Des Moines," Des Moines, Iowa, to maintain the same reserves against deposits as are required to be maintained by banks outside of central reserve and reserve cities, effective as of August 12, 1955, when it opened for business.

Please advise the bank of the Board's action in the matter, calling attention to the fact that such permission is subject to revocation by the Board of Governors of the Federal Reserve System.

Approved unanimously.

Letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., reading as follows:

Reference is made to a letter from your office dated June 9, 1955, enclosing photostatic copies of an application to organize a national bank at Kennewick, Washington, and requesting a recommendation as to whether or not the application should be approved.

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Information contained in a report of investigation of the application made by an examiner for the Federal Reserve Bank of San Francisco disclosed generally favorable findings with respect to all of the factors usually considered in connection with such proposals although operating management had not been selected. The Board of Governors, therefore, recommends approval of the proposal provided arrangements are made for management satisfactory to your office.

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.

Approved unanimously.

Letter to Mr. Denmark, Vice President, Federal Reserve Bank of Atlanta, reading as follows:

This refers to your letter of August 29, 1955, addressed to Mr. Sloan, concerning section 32 of the Banking Act of 1933, as amended, and the recent interpretation of the statute in the Board's letter of August 22, 1955, S-1573.

In that interpretation the Board expressed the view that, on the basis of the facts as outlined therein, a senior partner of a securities firm who was serving at the same time in an "advisory" capacity to the board of directors and the finance and trust committees of a national bank should not be regarded as an "officer, director, or employee" of the bank within the meaning of section 32, and that, accordingly, such interlocking relationship was not prohibited by the statute.

You asked whether, in view of the above interpretation, it would be proper now to advise a member bank in your district that, contrary to advice apparently given to the member bank several months ago, an officer of a securities firm would not be prohibited by section 32 from serving on the "advisory board" of a branch of the member bank.

While the interpretation was not submitted for publication in the Federal Register or the Federal Reserve Bulletin, it was considered desirable to distribute it to all Federal Reserve Banks for their guidance in connection with such

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similar cases as might come to their attention. Thus, the answer to your question would seem to depend largely on whether you and your Counsel feel that the "advisory board" situation to which you referred should be regarded as covered by the Board's interpretation in S-1573. Apparently it is felt that the former situation is not sufficiently different from that involved in S-1573 as to require or justify a conclusion different from the one reached by the Board in S-1573.

Of course, any determination of whether the prohibition in the statute is applicable or inapplicable in a given situation must necessarily depend on all of the relevant facts and circumstances of the particular case. Consequently, your Bank presumably would not wish to advise the member bank along the lines suggested in your letter if the view expressed by the Board in S-1573 is regarded to be of doubtful applicability to the "advisory board" situation referred to in your letter.

Approved unanimously.

There were presented telegrams to the Federal Reserve Banks listed below approving the establishment without change on September 8, 1955, of the rates of discount and purchase in their existing schedules:

Cleveland	St. Louis
Atlanta	Minneapolis

Approved unanimously.

Pursuant to the understanding at the meeting yesterday, there had been prepared a revised draft of letter to Congressman Multer of New York concerning positions in the Federal Government held by pensioned officers and employees of the Federal Reserve Banks and the Board. Copies of the revised draft had been sent to the members of the Board prior to this meeting.

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The draft was discussed and there were no suggestions for additional changes.

Accordingly, unanimous approval was given to the following letter for the signature of the Chairman to the Honorable Abraham J. Multer, House of Representatives, Washington, D. C.:

This refers to your letter of August 31, 1955, making inquiry as to positions in the Federal Government held by former officers and employees of Federal Reserve Banks and of the Federal Reserve Board who have retired on pensions, and suggesting that the drawing of Federal compensation by persons receiving such pensions is in violation of the law.

The Board maintains no record of the activities or employment with the Federal Government or otherwise of former officers and employees of the Federal Reserve Banks or Board of Governors. The Board understands, however, that it is not unlawful for officers or employees of the Federal Reserve Banks or Board who have retired on pensions provided by the Retirement System of the Federal Reserve Banks (which includes employees of the Board as well as the Banks) to hold positions in the Federal Government.

Presumably your inquiry refers to the provisions of the Civil Service Retirement Act (5 U.S.C. 715 and 715a) which prohibit any person receiving an annuity under that Act from being appointed to any position under the Federal Government except in certain prescribed circumstances. However, none of the officers or employees of the Reserve Banks and only a small number of employees of the Board are or have been members of the Civil Service Retirement System. All such personnel, except a few employees of the Board, are members of the Retirement System of the Federal Reserve Banks, the funds of which are derived from contributions by the Board, the Reserve Banks, and the employees. With respect to the few employees of the Board who have retired under the Civil Service Retirement System, it is understood that if any of them should subsequently hold a position in the Federal Government, the matter would in normal course come to the attention of the Retirement Office of the Civil Service Commission.

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It is possible that you may also have in mind certain provisions of law (5 U.S.C. 53, 70) which forbid the payment of appropriated moneys to a person receiving more than one salary in excess of a certain amount, and forbid an officer in the public service to receive extra allowances in the absence of an appropriation therefor. However, it is understood that these provisions are not applicable where only one of the payments is made from appropriated funds. Since funds of the Board of Governors and the Federal Reserve Banks are not appropriated moneys, it is believed that the provisions in question are not applicable to payments made by the Federal Reserve Retirement System.

Mr. Hackley then withdrew from the meeting.

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:

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

Reference is made to your letter of August 23, 1955, submitting with a favorable recommendation the request of the Arkansas Valley Bank, Pueblo, Colorado, for cancellation of special condition of membership numbered 4 imposed when the bank was admitted to the System on September 16, 1950, as a newly organized bank. This condition reads as follows:

- "4. When its total deposits reach \$6,000,000 and remain at or above that level for as long as six months, such bank shall increase its capital through sale of not less than \$100,000, par value, additional capital stock."

You state the bank's deposits have been continuously over \$6,000,000 since March 21, 1955, and, consequently, the bank could be required to take steps to comply with the terms of the condition if deposits remain at or above that level until September 21, 1955.

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Consideration has been given to all available information regarding the asset condition, management, earnings, capital structure, and growth record of the Arkansas Valley Bank, and the Board has reached the conclusion it would not be warranted in taking final action with respect to cancellation of condition of membership numbered 4 other than on the basis of a current report of examination made by examiners for the Federal Reserve Bank of Kansas City. In this connection, the member bank is subject to two other special conditions relating to fixed assets and dividends, both of which supplement condition of membership numbered 4, which were imposed primarily in an effort to insure that adequate capital funds would be available during the institution's early period of growth and would not be concentrated in banking premises or disbursed as dividends. It is believed any finding with respect to capital adequacy in the subject bank - after five years of operation - also should take into consideration the desirability of continuing these conditions.

Therefore, when forwarding the next report of examination of the Arkansas Valley Bank to the Board, it will be appreciated if you will furnish your recommendation regarding the cancellation or continuance of each of the special conditions of membership to which the member bank now is subject. In the interim, the member bank is authorized to defer any action with respect to compliance with condition of membership numbered 4. Please advise the member bank of the Board's views in this matter.

Approved unanimously.

Letter to the Board of Directors, The Sumitomo Bank (California), San Francisco, California, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors approves the establishment of a branch by The Sumitomo Bank (California) at or near the corner of Fourth and N Streets, Sacramento, California, provided the branch is established within six months from the date of this letter.

It is understood the bank's capital recently was increased by the sale of 1,000 shares of new common stock, par value \$100 at \$125 per share, to The Sumitomo Bank, Ltd.,

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Osaka, Japan, and that an equal amount of new common stock is to be sold locally on the same terms in compliance with a requirement imposed by the Superintendent of Banks of the State of California.

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

Letter to The Honorable Rowland R. Hughes, Director, Bureau of the Budget, Washington, D. C., reading as follows:

Attached are comments with respect to the proposals outlined in the Bureau of the Budget's Bulletin No. 56-3, of August 11, 1955, on the subject of the issuance and payment of transportation requests.

For the reasons stated in the reply to item 1(e) in Exhibit B, it is the Board's view that it should not be included in the procedures that would be established if the proposal for a central payment facility were adopted.

Approved unanimously, with a copy to the Accounting Systems Division, General Accounting Office.

Reference was made to a request by Bank of Encino, Los Angeles, California, for permission to establish a branch in Sherman Oaks. The file had been circulated to the Board with a recommendation from the Division of Examinations that the application be disapproved.

Action on the application was deferred at the request of Governor Robertson, who stated that he would like to review the file in more detail.

Reference was made to the discussion at the meeting on September 7, 1955, concerning participation by member banks in business development corporations. It was stated that arrangements had been made through Mr. Erickson, President of the Federal Reserve Bank of Boston, pursuant to which

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First Vice President Neal and Vice President Latham would meet with the Board at 9:30 a.m. on Thursday, September 15. It was also reported that President Erickson could not meet with the Board personally any day next week because of previous commitments.

Since development corporations were being formed in the States of New York and North Carolina, it was suggested that the New York and Richmond Reserve Banks be notified of the meeting so that they could send representatives if they so desired.

After some discussion of the manner in which the Board's consideration of the subject could be carried forward most effectively, the suggestion was made that the meeting on September 15 be at the staff level, that all of the Federal Reserve Banks be notified of the meeting so that they could send representatives if they wished to do so, that a summary of the views expressed by the Reserve Banks be made available to the Board, that the Presidents of the Federal Reserve Banks be asked to discuss the subject of bank participation in development corporations at the next meeting of the Presidents' Conference and at the joint meeting of the Presidents and the Board, and that appropriate material be sent to the Reserve Banks for use in the discussion by the Presidents' Conference. It was also suggested that there be prepared for the Board's consideration a draft of letter to Senator Scott of North Carolina which would constitute an interim reply to his letter of June 24, 1955.

These suggestions were approved unanimously.

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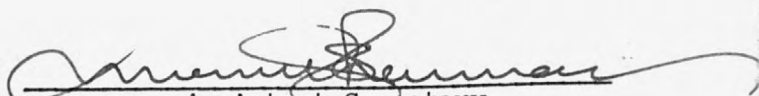
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Minutes of actions taken by the Board of Governors of the Federal Reserve System on September 8, 1955, were approved unanimously.

The meeting then adjourned.

Secretary's Note: Pursuant to the action taken by the Board on August 29, 1955, the following telegram was sent today to Mr. Powell, President of the Federal Reserve Bank of Minneapolis:

Reurtel today. Board approves effective September 12, 1955, rates of 2-1/4 per cent on discounts for and advances to member banks under Sections 13 and 13a, 2-3/4 per cent on advances to member banks under Section 10(b), and 3-3/4 per cent on advances to individuals, partnerships; or corporations other than member banks under last paragraph of Section 13. Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being given to press at 3:30 p.m. EDST today for immediate release.


Assistant Secretary