Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, September 15, 1955. The Board met in the Board Room at 9:30 a.m.

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

Mr. Sherman, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Marget, Director, Division of International Finance
Mr. Sloan, Director, Division of Examinations
Mr. Farrell, Assistant Director, Division of Bank Operations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Molony, Special Assistant to the Board
Mr. Shay, Assistant Counsel
Mr. Tamagna, Chief, Financial Operations and Policy Section, Division of International Finance

In accordance with the understanding at yesterday's meeting, there had been circulated before this meeting a revised draft of letter to International Banking Corporation, New York, New York, relating to the establishment of a Liberian subsidiary. The proposed letter was discussed briefly and several minor changes in language were suggested.

Following a discussion, upon motion by Governor Szymczak, unanimous approval was given to the letter in the following form, for transmittal through the Federal Reserve Bank of New York:

This refers to your letter of September 1, 1955, together with enclosures, transmitted through the Federal Reserve Bank of New York, with further reference to Mr. Shaw's letter of May 12, 1955, and the Board's reply of July 20 relating to the establishment by your Corporation of a Liberian subsidiary which will acquire the business and property of Bank of Monrovia, Inc., Monrovia, Liberia, a corporation formed under the laws of the State of New Mexico and wholly owned by Firestone Tire and Rubber Company.

It is understood that International Banking Corporation has entered into an agreement with the Republic of Liberia regarding the creation of a Liberian banking corporation to be known as "The Bank of Monrovia"; that the Liberian Legislature enacted "An Act to Create The Bank of Monrovia"; that The Bank of Monrovia has been duly created and exists as a corporate entity; and that the organization meeting of the new bank was held on August 26. It is further understood that your Corporation has subscribed to all of the capital stock of The Bank of Monrovia (2,500 shares of the par value of $100 each) at a price of $500,000--$250,000 to be allocated to capital and $250,000 to be allocated to surplus. It is also understood that the first meeting of Directors of the new bank was held on August 29, 1955; that officers were appointed; that it was resolved to issue the stock of the new bank to your Corporation upon payment of the purchase price; and that the officers were authorized to execute an agreement relating, among other things, to the acquisition, as of September 15, 1955, of all of the business, property, good-will and assets of the old bank and the assumption of certain liabilities (including deposits, drafts and remittances outstanding, cash deposits, letters of credit and indemnities, and certain reserve accounts). A copy of the final agreement was not furnished to the Board. It has been noted that the Liberian charter of The Bank of Monrovia provides extremely broad corporate powers which go far beyond those regarded by the Board of Governors as being appropriate for a foreign banking corporation.

On the basis of the information submitted and the Board's understanding thereof, the Board offers no objection to the proposed acquisition and holding by International Banking Corporation of the capital stock of The Bank of Monrovia provided that, unless the Board shall have given its prior consent, The Bank of Monrovia will not transact or engage in any business in the United States, will not purchase or hold any stock or other certificates of ownership of any organization doing business in the United States, will not establish any additional branches or agencies in Liberia or elsewhere, and will exercise only such powers and do only such things as in the judgment of the Board of Governors are incidental to banking conducted in the countries and dependencies in which The Bank of Monrovia may transact business.

In addition, the Board proposes to amend the regulations which are contained in the agreement which International Banking Corporation has previously entered into pursuant to the provisions of section 25 of the Federal Reserve Act to make it entirely clear and specific that, without the prior consent of the Board, International Banking Corporation may not purchase or hold any stock in any other corporation; and that, without such prior consent, no corporation in which International Banking Corporation owns or holds any stock shall transact or engage in any business in the United States or take any action or undertake any operation which is not permissible to International Banking Corporation under its agreement entered into under section 25 of the Federal Reserve Act.

You will understand, of course, that any such change in the regulations to which International Banking Corporation is subject under section 25 will be applicable to the operations and actions of that Corporation and also of any other corporation in which it may then hold any stock and, therefore, would apply to the holding by the International Banking Corporation of the stock of The Bank of Monrovia and to the operations and actions of The Bank of Monrovia.

The Board will be glad to receive any views or comments which you may wish to submit in connection with the proposed amendment. Any such material, however, should be received by the Board not later than October 17, 1955.

It is noted that upon commencement of active business by The Bank of Monrovia, now scheduled to occur on September 16, 1955, you will advise of the consummation of the transaction.

As, if, and when the transaction has been consummated, it is requested that a comprehensive report be made to the Board regarding the assets acquired, deposits and other liabilities assumed, and the manner and time in which the transfer is effected, together with supporting balance sheets for head office, branches, and agencies (both separately and combined) as of the date of the actual take-over. In this connection, please also advise as to the locations and mailing addresses of the head office, branches, and agencies of The Bank of Monrovia.

Messrs. Sloan, Goodman, and Shay withdrew from the meeting at this point.

Reference was made to a memorandum from Mr. Farrell dated August 26, 1955, submitting an outline of the procedures recommended for handling the analysis and consideration of the 1956 annual budgets of the Federal Reserve Banks. At Governor Balderston's request, Mr. Farrell commented on the outline, stating that the procedure contemplated was basically the same as that followed in the past few years. Mr. Farrell noted that in the budgets for this year, research, public information, and bank relations expenditures would be combined in one function. However, when information was received at the Board, proposed expenditures for individual units would be submitted for review and analysis by the appropriate divisions or individuals in the Board's offices.

In response to a question by Governor Mills, Mr. Farrell expressed the view that over-all budgets for the Federal Reserve Banks for 1956 might be expected to approximate the totals for 1955 since increased efficiency resulting from reduced personnel turnover would tend to offset increased salary rates this year.

Mr. Leonard concurred in the view expressed by Mr. Farrell as to total Reserve Bank expenditures during 1956. However, he noted that some additional expenditures would result from alterations to Bank and branch buildings and for furniture and equipment needed in connection with new or enlarged buildings. Mr. Leonard also noted that if the Board approved the proposed procedure, the pertinent memoranda summarizing Reserve Bank budget information would be prepared in the Division of Bank Operations as promptly as possible and after circulation among the members of the Board a date for review of the Reserve Bank budgets at a meeting of the Board would be determined.

Thereupon, unanimous approval was given to the procedures recommended for handling the 1956 Reserve Bank budgets as set forth in Mr. Farrell's memorandum of August 26, 1955.

There was presented a draft of telegram to Mr. Johns, President of the Federal Reserve Bank of St. Louis, which would authorize the Bank to call for bids for construction of a new building for the Louisville Branch on the basis of the plans and specifications referred to in letters from that Bank dated August 9 and September 8, 1955. Attached to the telegram was a memorandum from Mr. Leonard dated September 12, copies of which had been sent to the members of the Board before this meeting, in which reference was made to the Board's authorization of September 27, 1954, for preparation of detailed plans and specifications for a new Louisville

Branch building. The memorandum commented on correspondence and discussions relating to the plans that had been developed on the basis of that authorization and noted that the total costs on the basis of the specifications arrived at were now estimated at approximately $4,058,000. The memorandum also referred to possible alternatives which might reduce this estimated cost.

Mr. Leonard commented briefly on the memorandum and on the question that had been raised regarding whether a mural in the lobby, for which the specifications allowed $18,000, was the most suitable treatment for the space.

Following a discussion, unanimous approval was given to a telegram to Mr. Johns, President, Federal Reserve Bank of St. Louis, reading as follows:

Board interposes no objection to your Bank's calling for bids for construction of a new building for the Louisville Branch on the basis of the plans and specifications referred to in your letter of August 9 and Weigel's letter of September 8.

The estimate of costs of "building proper" is considerably in excess of the amount tentatively allocated and it is noted that in an effort to keep costs down, specifications call for a number of alternates. Board trusts that through competitive bidding and a judicious choice of alternates, costs may be held down.

Specifications refer to an allowance of $18,000 for a mural in the lobby. It is understood that there is considerable question as to whether a mural is the most suitable treatment for the space, and that the matter is being given further consideration. Board likewise has considerable reservations as to the mural and this authorization to call for bids on the basis of specifications is with the understanding that this question is still open.

Messrs. Leonard and Farrell withdrew from the meeting at this point.

Before this meeting there had been sent to the members of the Board a memorandum of a discussion held on September 7, 1955, at the Board's building at which Governors Szymczak and Mills and Messrs. Vest, Marget, Solomon, and Tamagna of the Board's staff and Messrs. Davis and Exter of the New York Reserve Bank staff discussed certain questions of policy and procedure concerning gold loans. The memorandum stated that after discussion it was understood that Governors Szymczak and Mills would recommend to the Board that it transmit to the Reserve Banks for comment an attached draft of statement on Gold Loan Policy. This statement of possible policy on gold loans, after referring to applicable provisions of Regulation N, Relations with Foreign Banks and Bankers, and the January 1, 1944 "Statement of Procedure with respect to Foreign Relationships of Federal Reserve Banks" (FR LLS #5720), presented criteria for terms and conditions of loans on gold by Federal Reserve Banks to foreign banks or governments, as well as the purposes of such loans. The memorandum also commented on procedure to be followed as a means of maintaining liaison between the New York Bank and the Board so that difficult or controversial elements of a proposed gold loan could be considered by both that Bank and the Board early in the process of System consideration. This would apply also to cases in which it appeared that the System might not proceed with a loan. The memorandum went on to say that inasmuch as negotiation of gold loans involved primarily the Board and the New York Bank, those present at the September 7 meeting agreed that it would not be necessary to formalize procedure since relations could best be worked out in the course of day-to-day operations in a spirit of mutual understanding and cooperation, each organization recognizing the special responsibilities of the other. The memorandum further stated that there had been agreement at the September 7 meeting that the New York Bank would institute the practice of transmitting to the Board copies of memoranda written in the Bank regarding conversations with foreign representatives or other developments on gold loans.

In response to a question from Governor Vardaman, Governor Mills stated that his understanding was that both the Board and the New York Bank had special responsibilities in connection with gold loans: the New York Bank made the loans and offered participations to the eleven other Federal Reserve Banks, but the loans could not be made until the Board had given its approval. Mr. Vest concurred in this statement, adding that the making of a loan by a Federal Reserve Bank on gold necessitated action on the part of both the Board and the Federal Reserve Bank and, in that sense, the responsibility was joint and was not exclusive for either the Board or the Reserve Bank.

Governor Szymczak stated that the proposed statement of policy on gold loans and the memorandum of the discussion held on September 7 had been arrived at after a considerable period of time and that it was now contemplated that if the Board approved, the memorandum of the discussion would be regarded as the basis for procedure in handling applications or discussions relating to gold loans in the future. Governor Szymczak pointed out that if the Board approved this memorandum along with the proposed statement of policy, it meant in effect that it reaffirmed the "Statement of Procedure with respect to Foreign Relationships of Federal Reserve Banks" which had been distributed to the Reserve Banks under date of January 1, 1944. He also noted that this memorandum, which representatives of the New York Bank had indicated would be satisfactory to them, would also provide for transmission to the Board of copies of memoranda relating to conversations with foreign representatives or other developments on gold loans, a provision which had not been incorporated in the 1944 statement.

Governor Mills concurred in the statement made by Governor Szymczak, adding that if the Board approved, the memorandum would provide a current statement of a procedure agreeable to both the Board and the Federal Reserve Bank of New York for the handling of applications or inquiries regarding gold loans.

Mr. Marget then commented in some detail on the discussions of this subject at meetings on June 30 and September 7 attended by representatives of the Board and the New York Bank. He brought out particularly the fact that, especially in unusual or exceptional cases, the New York Bank would not proceed so rapidly with its discussions of a proposed gold loan as to confront the Board, in effect, with a fait accompli when it was first apprised of the negotiations. He also emphasized that as far as the Board's staff was concerned, it would recognize its responsibility to call to the attention of the Board as promptly as possible any information it received by telephone or otherwise of discussions relating to possible gold loans. Mr. Marget stated that in his opinion the New York Bank felt that it had promptly communicated to the Board, by telephone calls to staff members or otherwise, information regarding gold loans in the past. However, he also felt that the recent discussions would help to assure that in the future such information would be transmitted promptly and that, in addition, the New York Bank would now undertake to furnish the Board promptly with any memoranda that might be prepared for interim use concerning any inquiry regarding such a loan. This would apply not only to loans which the Bank might contemplate granting but also to loans which at the outset appeared likely to be declined. On this point, Mr. Marget noted there was a view that under the statute Board approval was required for making a loan but not for passing upon loans which the Bank felt it should reject.

During the ensuing discussion, question was raised as to whether the memorandum of the September 7 discussion should be transmitted to the New York Bank with a letter expressing the Board's views as to the procedure for handling gold loans, or whether it should be accepted as an informal understanding between the Board and the New York Bank. On this point, Governor Mills expressed the view that it was neither necessary nor desirable to formalize the procedure to the extent of the suggested letter, and he indicated he would prefer the suggestion contained in the memorandum that relations could best be worked out in the course of day-to-day operations in a spirit of mutual understanding and cooperation, each organization recognizing the special responsibilities of the other.

Question was also raised whether revisions might be made in either the memorandum of the September 7 discussion or the proposed statement of policy on gold loans without clearance of such revisions with the New York Bank. On the latter point, Governor Mills expressed the view that he would strongly prefer not to make any revisions at this stage in either statement, noting that if the statement of Possible Policy on Gold Loans were submitted to the Reserve Banks for comment, there would be opportunity for making revisions in the statement after such comments were received.

This matter was discussed at length. In the course of the discussion, the suggestion was made that the September 7 draft statement of Possible Policy on Gold Loans, together with a memorandum from the Division of International Finance giving background information on gold loan policy, be transmitted to the Reserve Banks for comment. It was also suggested that, for convenience, the material to be sent include copies of Regulation N, Relations with Foreign Banks and Bankers, and the January 1, 1944 "Statement of Procedure with respect to Foreign Relationships of Federal Reserve Banks" even though both were available at the Federal Reserve Banks.

Another suggestion was that there be prepared for consideration by the Board at a later meeting a draft of letter to Mr. Sproul which would transmit the memorandum covering the discussion held on September 7, 1955, and which would also state in some detail the Board's views concerning the procedure for handling gold loans.

> At the conclusion of this discussion, it was understood that drafts of two letters would be prepared and submitted to the Board for its consideration: one of these would be addressed to all Federal Reserve Banks inviting comments on the proposed policy statement on gold loans; and the other would be addressed to Mr. Sproul outlining the Board's views and understanding regarding gold loan procedure to be followed, in the light of the recent discussions of this subject by representatives of the Board and the New York Bank.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on September 14, 1955, were approved unanimously.

The meeting then adjourned.

Assistant Secretary