Minutes of actions taken by the Board of Governors of the Federal
Reserve System on Friday, September 30, 1955. The Board met in the Board
Room at 10:00 a.m.

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

Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Leonard, Director, Division of
Bank Operations
Mr. Vest, General Counsel
Mr. Young, Director, Division of
Research and Statistics
Mr. Sloan, Director, Division of
Examinations
Mr. Solomon, Assistant General Counsel
Mr. Connell, Chief, Reserve Bank Opera-
tions Section, Division of Bank
Operations

The following draft of letter to the Board of Directors, Girard
Trust Corn Exchange Bank, Philadelphia, Pennsylvania, which had been cir-
culated to the members of the Board, was presented for consideration:

The Board of Governors of the Federal Reserve System ap-
proves the establishment of a branch by Girard Trust Corn Ex-
change Bank, Philadelphia, Pennsylvania, to be located in the
Suburban Station Building, 17th Street and Pennsylvania Boule-
vard, Philadelphia, Pennsylvania, provided the branch is es-
tablished within one year from the date of this letter.

Following a discussion, during
which reference was made to the objec-
tion to the branch interposed by the
president of a competing bank, unani-
mous approval was given to the letter
in the form set forth above, for trans-
mital through the Federal Reserve Bank
of Philadelphia.
Pursuant to the understanding at the meeting on September 28, 1955, the following revised draft of letter to Mr. Wiltse, Vice President of the Federal Reserve Bank of New York, had been prepared and copies had been sent to the members of the Board:

This refers to your letters of May 24, 1955 and August 24, 1955 relating to the applicability of section 32 of the Banking Act of 1933 to Mr. Howard K. Halligan, a partner of C. J. Lawrence & Sons, and a vice president of C. J. Lawrence Securities Corporation, who was elected a director of Montclair Trust Company, Montclair, New Jersey, in January of this year, and also to Jerome C. Eppler who is an employee of C. J. Lawrence & Sons and a director of The First National Iron Bank of Morristown, New Jersey. It is understood that all the general partners of C. J. Lawrence & Sons are the officers and stockholders of C. J. Lawrence Securities Corporation.

It appears that in 1954, C. J. Lawrence Securities Corporation derived 41.5% of its income from one operation which is clearly of the kind described in section 32 and an additional 18.8% from another operation as to which the facts are not entirely clear but which may also have been of the kind described in that section. Thus, the facts available at this time seem to suggest that the corporation in 1954 was "primarily engaged" in business described in section 32. However, it is realized that the operations of the corporation are small, producing a total gross income of less than $14,000, that they may be in the process of changing, and that Mr. Halligan has indicated that "We do not at present anticipate" that the corporation will have further business of the first kind mentioned above. In the circumstances, and since information which may be available within a few months on the 1955 operations of the corporation may throw additional light on the matter, the Board will defer expressing a definite opinion with respect to the question until there has been an opportunity for you to review the facts early next year in the light of the 1955 operations.

Following a brief discussion, the letter was approved unanimously.
There were presented telegrams to the Federal Reserve Banks listed below approving the establishment without change on the dates indicated of the rates of discount and purchase in their existing schedules:

- Boston  September 26
- St. Louis  September 26
- Atlanta  September 29

Approved unanimously.

There had been sent to the members of the Board copies of a memorandum from Mr. Leonard dated September 29, 1955, proposing that Mr. Persina, Consulting Architect to the Board, be authorized to make stops at St. Louis, Missouri, Dallas, Texas, and possibly El Paso, Texas, in the course of a forthcoming trip to the West Coast to discuss current building programs with the Federal Reserve Banks of St. Louis and Dallas and the architects for those Banks. The authorization would cover mileage for detours necessary to visit the cities mentioned and per diem (at the rate of $12) for the time involved in the visits and the detours.

Approved unanimously.

Reference was made to a memorandum from Mr. Leonard dated September 28, 1955, of which copies had been sent to the members of the Board, recommending that the Federal Reserve Bank of Dallas be authorized to prepare detailed plans and specifications for a new Houston Branch building on the basis of preliminary plans and specifications which had been approved by the head office and Houston Branch directors.
Mr. Leonard said that the preliminary plans had been reviewed by the Board's Consulting Architect, who considered the arrangement an efficient one and was impressed by the windowless exterior. Mr. Leonard also stated that Governor Shepardson had seen the plans and was favorably disposed. He added that the costs were reasonable in comparison with recent construction elsewhere and that the foundation would, if necessary, carry five floors in addition to the three floors now planned.

Governor Balderston inquired whether, in view of problems encountered in the past, controversies concerning air conditioning were likely to arise in the future, to which Mr. Leonard responded that he had outlined these problems in conversations with Federal Reserve Bank officers so that they would be on notice and could take appropriate precautions. In reply to another question from Governor Balderston, Mr. Leonard said that all but a small percentage of the amount available for Reserve Bank branch buildings under the present statutory authority had been committed.

Thereupon, unanimous approval was given to a telegram to Mr. Irons, President of the Federal Reserve Bank of Dallas, reading as follows:


Messrs. Leonard and Connell then withdrew from the meeting.
There had been sent to the members of the Board copies of (1) a letter addressed to Governor Balderston under date of August 26, 1955, by Mr. Donald C. Rubel, of Parrish & Co., Philadelphia, Pennsylvania, who suggested that Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, should apply not only to stocks but also to bonds and debentures that are convertible into stock; (2) a proposed reply which would refer to the Board's previous consideration of the matter and indicate that the Board again was studying the question whether the increased use of convertible securities and of bank loans for the purpose of purchasing such securities appeared to warrant any change in the regulation; and (3) a memorandum dated September 26, 1955, from Messrs. Pawley, Economist, Division of Research and Statistics, and Shay, Assistant Counsel (prepared in the light of Mr. Rubel's letter and the understanding at the meeting on September 21, 1955) discussing various methods of strengthening Regulation U.

Governor Balderston commented on the letter from Mr. Rubel and inquired whether the members of the Board felt that the question of amending Regulation U along the lines suggested deserved further consideration.

Governor Szymczak stated that in the past the Board had taken a position opposed to such an amendment, that he doubted whether it would be desirable to change that position at this time, and that he would be inclined to recommend against amending the regulation. He expressed agreement, however, with a suggestion that the views of the Federal Reserve Banks be requested.
Following further discussion, unanimous approval was given to a letter from Governor Balderston to Mr. Rubel reading as follows, with the understanding that copies of the correspondence and the memorandum from Messrs. Pawley and Shay would be sent to the Presidents of all Federal Reserve Banks with a transmittal letter stating that the Board would appreciate receiving their comments and suggestions, particularly with regard to the desirability of amending Regulation U to bring convertible bonds within its coverage:

I am sorry that I have not been in a position to respond sooner to your letter of August 26, which arrived while I was on vacation. You suggest that the Board's Regulation U should apply not only to stocks, but also to bonds and debentures that are convertible into stock.

As you know, the scope and effect of Regulations T and U are not the same, and in general the provisions of the regulation relating to credit by brokers and dealers are more restrictive than those that apply to banks. Some of these differences are prescribed by Congress in the Securities Exchange Act of 1934. Under this statute, the Board's regulations regarding loans on stock by banks (Regulation U) may not be made applicable to loans on securities other than equity securities. Since the statute, however, treats securities convertible into stock as equity securities, it would be within the regulatory authority of the Board to make the regulation applicable to loans by banks on convertible bonds.

Needless to say, over the past twenty years the Board and its staff have given careful consideration to the desirability of various provisions of its margin regulations. Although some of these provisions may produce results that in individual cases may appear undesirable, the Board must consider whether the benefit of expanding the coverage of the regulation may be outweighed by resulting inconveniences and complexities in the transaction of business by those affected. As you know, in some cases a conversion privilege is of negligible value for the foreseeable future because of the relatively low market price of the stock into which the security is convertible.
The Board, however, is giving this question further consideration in order to determine whether the increased use of convertible securities and of bank loans for the purpose of purchasing such securities appears to warrant any change in the regulation.

Although not directly related to the question you raise, I may call your attention to the provision of Regulation T which, under certain conditions, permits a customer exercising a right to acquire a security to borrow up to 75 per cent of the value of the security from a broker. This, of course, is pertinent in connection with the recent issue of rights to purchase A.T. & T. convertible bonds.

Thank you for letting us have your views on this difficult question.

At this point Messrs. Riefler, Assistant to the Chairman, and Thomas, Economic Adviser to the Board, entered the room.

At Governor Balderston's suggestion, there had been sent to the members of the Board copies of a letter addressed to Chairman Martin under date of September 26, 1955, by Mr. R. J. Saulnier, of the Council of Economic Advisers, in which Mr. Saulnier requested by October 15 a statement of legislation which the Board might wish to submit to the next session of Congress and which would have a significant effect in economic growth and stability, for use in connection with the Economic Report of the President; and (2) the designation of a person to serve as liaison with the Council in this matter.

After some discussion of the response which might be made, Governor Szymczak suggested that Governors Balderston and Mills be requested to study the matter and that the subject be placed on the agenda for
further consideration following Chairman Martin's return. This procedure, he pointed out, would permit sending a reply to Mr. Saulnier by October 15.

There was unanimous agreement with Governor Szymczak's suggestion and it was understood that the matter would be tentatively placed on the agenda for October 11 or 12.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on September 29, 1955, were approved unanimously.

The meeting then adjourned.

Secretary's Note: Pursuant to the action taken by the Board on September 28, 1955, the following telegram was sent today to Mr. Oliver S. Willham, President, Oklahoma A & M College, Stillwater, Oklahoma:

Board of Governors of the Federal Reserve System has appointed you a Class C director of the Federal Reserve Bank of Kansas City for unexpired portion of term ending December 31, 1956. Your acceptance by collect telegram will be appreciated.