

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, October 11, 1955. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Young, Director, Division of  
 Research and Statistics  
 Mr. Solomon, 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. Erickson, President, Federal Reserve Bank of Boston, reading as follows:

The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of Boston for the period November 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 September 26, 1955:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
D. Harry Angney	Vice President	\$14,500
J. E. Lowe	Cashier	11,500

Approved unanimously.

10/11/55

-2-

Letter to Mr. Scanlon, Chief Examiner, Federal Reserve Bank of Chicago, reading as follows:

In accordance with the request contained in your letter of October 4, 1955, the Board approves the designation of the following as special assistant examiners for the Federal Reserve Bank of Chicago:

George Forbes  
James Dockery

R. W. Dybeck  
Francis Holzinger

Approved unanimously.

Letter to Mr. Treiber, First Vice President, Federal Reserve Bank of New York, reading as follows:

The Board of Governors approves the reemployment of Charles T. Cushman, retired employee, to operate the proposed relocation center of the Federal Reserve Bank of New York at Cornell University, Ithaca, New York, at an annual salary of \$8,000, as stated in your letter of September 14, 1955.

The Board understands that when this salary was fixed, consideration was given to the pension portion of Mr. Cushman's retirement allowance.

Approved unanimously.

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

The Board of Governors approves, effective September 5, 1955, the payment of salaries to the engineers and firemen at the Federal Reserve Bank of Chicago at annual rates not in excess of \$6,011.20 and \$5,200.00, respectively, which are the rates established in the new agreements between the Building Managers' Association of Chicago and the Engineers' and Firemen's Unions, as reported in your letter of September 27, 1955.

It is noted from your letter that under the agreements dated October 1, 1954, and November 1, 1954, there were no changes in rates with respect to janitors, window washers, elevator operators and janitresses.

Approved unanimously.

10/11/55

-3-

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

Reference is made to your letter of September 20, 1955 and enclosures relating to the request of Mr. Heller for reconsideration of the opinion stated in the Board's letter of June 29, 1955 that the firm of Heller & Meyer is "primarily engaged" in the business described in section 32, and that Mr. Heller's interlocking directorship as director of The Dover Trust Company and as a partner of the firm appears to violate the provisions of that section.

Mr. Heller's request for reconsideration is based on two grounds. The first is that the sale of investment company shares by the firm as principal under selling agreements with the national sponsors of several investment companies, for which the firm receives a dealer's discount, should not be regarded as included among the kinds of businesses described in section 32. However, as you point out, this is the usual method by which such shares are distributed, and there would appear to be no reason for the Board to change the opinion expressed in its letter of June 29.

The other reason for reconsideration advanced by Mr. Heller is that in reaching the conclusion that the income from the "distribution" of securities amounted to 16.1 per cent of the gross income of the firm, the Board took, as the income of the firm from brokerage, the net amount which the firm received under an agreement by which Shearson, Hammill & Co. handled their business on the stock exchange, retaining 40 per cent of all commissions as a clearance fee, and paying 60 per cent to Heller & Meyer. Mr. Heller says that instead of regarding 60 per cent of the commissions as the firm's income from brokerage, the entire amount of the commissions should be used, and the 40 per cent clearance fee should be regarded as an "expense of operation". This would increase the total income of the firm, with the result that the \$15,807.00 income of the firm from underwriting and distributing would be only 11.3 per cent of its total income for the 11-1/2 months covered by the figures submitted.

Purely from an accounting standpoint, it seems likely that either method would be permissible. However, the only reason for obtaining figures as to the percentage of the firm's income

10/11/55

-4-

derived from "underwriting and distributing" is to ascertain the importance of that type of business to the firm, in order to determine whether it is one of the primary activities of the firm and so be apt to have an influence on the judgment of a partner of the firm who was serving as a director of a member bank. For the purpose of appraising the importance of this phase of the bank's business, it would seem that the net income would be the relevant figure, rather than a book-keeping figure representing gross commissions which were not received by the partnership until 40 per cent had been deducted from them.

Mr. Heller also refers to the fact that \$3,292 of the \$15,807 is derived from the execution by the firm of orders received from customers for securities "previously issued and outstanding." This would seem to indicate that these transactions were really brokerage transactions and so not subject to section 32, even though the firm acted as principal. However, Mr. Heller also refers to these transactions as being, in some cases, "small orders for secondary offerings", which would indicate that they may be parts of "secondary distributions." If these transactions were excluded, the section 32 business would be about three per cent less than the figures mentioned above.

However, there are additional matters which apparently should be taken into consideration. The figures which have been submitted to the Board and which are discussed again in Mr. Heller's request for reconsideration, cover only the first 11-1/2 months of the operation of the firm, since the firm began business on February 15, 1954, and the figures covered the period ending January 31, 1955. On May 15, 1955 Mr. Heller's father, who was a founder of The Dover Trust Company more than 50 years ago and chairman of its board, died suddenly, leaving Mr. Heller as the only representative of the shares held by his family representing 18 per cent of the bank's capital.

In the circumstances, Mr. Heller requests that the Board "defer final determination" of the section 32 question pending receipt of figures based on the firm's "first full year of operation which will come to a conclusion on January 31, 1956." He points out that the volume of the firm's stock exchange commission business "has consistently gained at a rate more rapid than the gain of the total volume of the Stock Exchange."

10/11/55

-5-

It appears, therefore, that the pattern of operations of the firm may not yet be stabilized and that the volume of brokerage business may be increasing faster than the distributing being done by the firm, which, moreover, may evolve into an unsubstantial part of the firm's business. Consequently, in view of the several uncertain factors mentioned above, the Board believes that it would be proper to defer final determination until there has been an opportunity to review the case on the basis of further data shortly after the end of 1955.

Approved unanimously.

Letter to the Board of Directors, National Bank of Commerce of Gastonia, Gastonia, North Carolina, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers, and, in addition to the authority heretofore granted to act as trustee, grants you authority to act, when not in contravention of State or local law, as executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of North Carolina. The exercise of all such powers shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers which the National Bank of Commerce of Gastonia is now authorized to exercise will be forwarded to you in due course.

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

Reference was made to a letter from Mr. Nelson D. Miller, President of the Southwest Acceptance Company, Inc., San Antonio, Texas, discussing current monetary policy and asserting that in times of credit

10/11/55

-6-

restraint smaller finance companies were handicapped by being less able to obtain lines of bank credit than the larger companies. He felt that many of the smaller companies would welcome the reinstatement of instalment credit regulation which would affect the operations of all segments of the industry.

There had been circulated to the members of the Board a draft of reply which would state that the Board had been following closely developments in the instalment credit field during recent months and that it was concerned about the kind of problem outlined in Mr. Miller's letter. In referring to the expiration of the statutory authority under which Regulation W, Consumer Credit, was most recently issued, the draft would point out that some of those affected by the regulation contended that it also posed problems of equity.

The draft was discussed and the suggestion was made that it be revised in a form which would state that the Board was aware of the problems created by the increased use of instalment credit and was glad to have Mr. Miller's comments. It was also suggested that the letter go no further in referring to instalment credit regulation than to cite the expiration of the statutory authority under which Regulation W was issued.

At the conclusion of the discussion, it was understood that a revised draft would be prepared which would reflect the views expressed at this meeting.

10/11/55

-7-

At the meeting on September 30, 1955, preliminary consideration was given to a letter dated September 26, 1955, from Mr. Raymond J. Saulnier, member of the Council of Economic Advisers, requesting, for use in connection with the forthcoming Economic Report of the President, a statement of legislation which the Board expected to submit to the next session of Congress and which would have a significant effect on economic growth and stability. The letter went on to state that if it seemed more convenient to handle the matter informally, the Board might designate a member of its staff with whom members of the staff of the Council could discuss legislative recommendations.

During a further discussion of the letter, Chairman Martin suggested that the Board follow the alternative course proposed by Mr. Saulnier and that Mr. Young, Director of the Division of Research and Statistics, be designated as the member of the Board's staff with whom members of the Council's staff might discuss legislative proposals for promoting growth and economic stability. Mr. Young, he suggested, could state to the Council's staff informally that at this time the Board had no legislative proposals in mind.

Chairman Martin's suggestion was approved unanimously, and it was understood that Mr. Saulnier would be informed of Mr. Young's designation.

Secretary's Note: Pursuant to the foregoing action, the following letter was sent to Mr. Saulnier over the signature of Chairman Martin on October 12, 1955:

10/11/55

-8-

In accordance with the suggestion in the last paragraph of your letter of September 26, 1955, the Board of Governors has designated Mr. Ralph Young, Director of the Division of Research and Statistics, as the member of the Board's staff with whom the members of the staff of the Council may discuss legislative proposals for promoting economic growth and stability.

Consideration then was given to a memorandum from Mr. Young dated October 6, 1955, copies of which had been sent to the members of the Board, regarding an informal request from members of the staff of the Senate Banking and Currency Committee for the Board's cooperation in obtaining certain statistical data in the field of institutional investment in corporate stocks. The Committee's report, issued at the conclusion of the stock market hearings held earlier this year, directed the staff to undertake further studies in this area with the help of appropriate Governmental and private agencies.

The Committee staff members requested that the Board (1) obtain monthly data on sales and purchases of stocks by the common trust funds of a group of large banks for the period from January 1953 to date, along with similar data on sales and purchases of a number of specific individual stocks, (2) obtain similar information on the investment activities of the personal trust funds of a selected group of large banks having the necessary information available, (3) look into the problem of obtaining on a recurring basis benchmark data on the investment holdings and activities of personal trust funds, and (4) prepare a broad memorandum dealing



10/11/55

-9-

with the importance of investment institutions in the stock market based on existing statistical and other factual data. The broad memorandum and the statistics on recent investment activities of common trust funds and personal trust funds were requested by the end of this year and by January or February 1956, respectively, while assurance was desired that consideration would be given to the possibility of securing benchmark data on personal trust funds. The memorandum suggested as a possible approach to the matter that the Division of Bank Operations, now conducting the first of a proposed annual series of surveys on the investment holdings of common trust funds, might send out a supplementary questionnaire to a small group of the leading banks which do a common trust business, that the Committee's request for data on personal trust funds might be referred to a reconstituted System committee on trust funds, and that Mr. Dembitz, Assistant Director of the Division of International Finance, might be asked to work with members of the Division of Research and Statistics in preparing the broad memorandum on the importance of institutional investors in the stock market.

In commenting on the matter, Mr. Young said that the current request represented a revision of an earlier request by the Committee staff which involved a more comprehensive collection of data from banks with regard to sales and purchases of stocks by common and personal trust funds. At that time, he said, the Board's staff mentioned the burden that would be placed on reporting banks, as well as the Board's staff, and the

10/11/55

-10-

possibility that no information of significant value could be obtained as far as personal trust funds were concerned. With regard to the revised request, which seemed less burdensome, he said that the Committee staff members had been informed that the matter would be presented to the Board but that no commitment was made.

In a discussion of the request, a question was raised as to the extent to which the Board might reasonably go in cooperating with various Congressional committees in securing various kinds of information and statistical data. On this point, it was agreed that the Board should have a formal request from the committee concerned rather than proceed on the basis of an informal staff request. It was also brought out that in some instances the information sought by a committee might be of a type which would be valuable to the Board in the discharge of its responsibilities and that in some such cases it might be desirable for the Board to consider the collection of such data on a continuing, and possibly expanded, basis for its own use. With respect to the request from the Banking and Currency Committee, it was felt that the data were of a nature which conceivably could be valuable to the Board as well as for the purposes of the Committee's study; on the other hand, it was recognized that the project of collecting the type of information sought was of an experimental nature and that it might be found that there was no practicable method of obtaining such information. However, it was suggested that if the initial collection of data produced significant

10/11/55

-11-

information and disclosed the practicability of proceeding further along the same lines, consideration should be given to going beyond the Committee's request and establishing a program for procuring the statistics on a regular basis.

In the course of the discussion, Chairman Martin stated that he was not so much concerned about the possibility of an increasing number of requests from Congressional committees as he was that the Board's studies should be entirely objective. Regarding the current request, he said it appeared to him that the program would have to be undertaken on the basis that the Board would do everything possible to secure the kind of information desired, but that if it developed that the Board could not obtain objective data on any aspect of the subject, it would so inform the Committee.

At the conclusion of the discussion, it was suggested that Mr. Young be authorized to advise the members of the staff of the Committee with whom he had discussed the request that if the Board should receive a formal request from the Chairman of the Committee, it would undertake to comply with the request by taking actions along the lines proposed in Mr. Young's memorandum.

This suggestion was approved unanimously.

During the foregoing discussion Mr. Thomas, Economic Adviser to the Board, joined the meeting.

10/11/55

-12-

Governor Balderston referred to a memorandum submitted to him under date of October 7, 1955, by Mr. Fauver, Assistant Secretary of the Board, regarding a request from the International Cooperation Administration that a group of 17 French bankers coming to this country for five weeks under the auspices of that agency be permitted to visit the Board's offices on the morning of October 25, 1955, for a program by the Board's research staff concerning United States banking methods.

Following a discussion, it was agreed unanimously that a favorable response should be given to the International Cooperation Administration, with the understanding that the arrangements would not include a luncheon invitation.

Governor Balderston then referred to a letter addressed to Chairman Martin under date of September 28, 1955, by Mr. Homer J. Livingston, outgoing President of the American Bankers Association, which stated that the Association had approved the June 15, 1954, report of the Joint Committee on Check Collection System, as subsequently amended, and was prepared to participate in carrying out the report's recommendations. Governor Balderston said that a reply had been drafted and that, following an informal review by him and by Governor Mills, it had been sent by wire to the Presidents of the Federal Reserve Banks for their comments. He went on to point out that the report had not yet been accepted by the Association of Reserve City Bankers and according to present indications

10/11/55

-13-

would not receive approval until the next meeting of that Association's directors in April 1956. Since it appeared from Mr. Livingston's letter that the Board's reply would be publicly released by the American Bankers Association, Governor Balderston raised for consideration the question whether the attention of the new President of the American Bankers Association, Mr. Fred F. Florence, should be drawn to that fact that public disclosure of the correspondence between the Board of Governors and the American Bankers Association might militate against the chances of favorable action on the report by the Association of Reserve City Bankers.

The point raised by Governor Balderston was discussed and it was stated that since the situation undoubtedly was well known to the American Bankers Association, it might be preferable to rely on that organization's judgment as to whether or not the correspondence should be publicized. It was reported that the comments of the Reserve Bank Presidents regarding the proposed reply to the American Bankers Association were now being received and that a draft of reply prepared in the light of those comments would be available for consideration at the meeting tomorrow.

Governor Robertson referred to the examination of the London branches of The Hanover Bank, New York, New York, a State member bank, which was conducted by examiners for the Board of Governors as of May 10, 1955. In the report of examination, comment was made concerning the fact that The Hanover Bank's West End Office in London was found to be located

10/11/55

-14-

in the banking room area of a branch of a British banking institution. Governor Robertson said that The Hanover Bank had inquired informally whether the removal of the West End Office to a location a very short distance away would require approval of the Board, that the bank had to have an immediate answer in order to be able to obtain the new site, and that he had advised the bank that such a change would not constitute the establishment of a new branch and would not require the approval of the Board but that in due course the bank should submit the matter to the Board in order that the record might be complete.

There was unanimous concurrence in the action taken by Governor Robertson.

Governor Robertson stated that he was now in process of reviewing State member "problem" banks with representatives of the Division of Examinations, that he felt the Division's staff should meet with the Board to summarize these cases, and that he would like to have such a discussion at a meeting of the Board at some convenient time.

Governor Robertson also stated that he had arranged for Chief Federal Reserve Examiner Lang to come to the Board's offices later this week to review with him and with other members of the staff developments with respect to the management and operations of several of the most recently examined Federal Reserve Banks. Thereafter, he said, he would present the usual summarization at a meeting of the Board.

10/11/55

-15-

Chairman Martin commented informally regarding his attendance at the annual meetings of the Boards of Governors of the International Monetary Fund and the International Bank for Reconstruction and Development which were held in Istanbul, Turkey, during the week of September 12, 1955. He also commented on conversations with central bankers in the countries which he visited en route home from the meetings and reviewed his impressions of economic conditions in those countries.

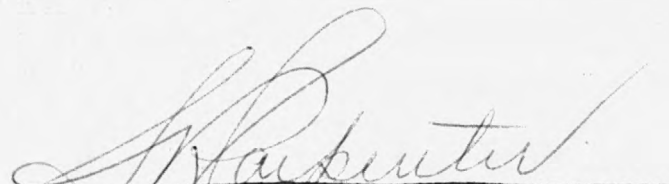
Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 7, 1955, were approved unanimously.

The meeting then adjourned.

Secretary's Note: The Chairman of the Federal Reserve Bank of San Francisco having advised that Mr. Charles Detoy, Partner, Coldwell, Banker and Company, Los Angeles, California, would accept appointment as a director of the Los Angeles Branch, the following telegram was sent to Mr. Detoy on October 7, 1955, pursuant to the Board's action of September 2, 1955:

Board of Governors of Federal Reserve System has appointed you a director of Los Angeles Branch of Federal Reserve Bank of San Francisco for unexpired portion of term ending December 31, 1956. Your acceptance by collect telegram will be appreciated.

Understand you are not a director of a bank and do not hold public or political office. Should situation in these respects change during tenure of appointment, please advise Chairman of Federal Reserve Bank of San Francisco.

  
Secretary