Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, December 20, 1955. The Board met in the Board Room at 9:30 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Cherry, Legislative Counsel
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Marget, Director, Division of International Finance
Mr. Sloan, Director, Division of Examinations
Mr. Solomon, Assistant General Counsel
Mr. Dembitz, Assistant Director, Division of International Finance
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 November 28, 1955, from Mr. Young, Director, Division of Research and Statistics, recommending that Madeleine Verdonck, Clerk-Stenographer in the Division of Personnel Administration, be transferred to the Division of Research and Statistics as Clerk-Stenographer,

with no change in her present basic salary of $3,175 per annum, effective as of the date she assumes her new duties.

Approved unanimously.

Memorandum dated December 7, 1955, from Mr. Leonard, Director, Division of Bank Operations, recommending that Kathryn E. Ridgway, Clerk in the Division of Research and Statistics, be transferred to the Division of Bank Operations as Clerk, with no change in her present basic salary of $3,670 per annum, effective as of the date she assumes her new duties.

Approved unanimously.

Memorandum dated December 12, 1955, from Mr. Young, Director, Division of Research and Statistics, recommending that a leave of absence without pay be granted to Vivian C. Howard, Clerk in that Division, for a period of 5 days, from the close of business on December 2, 1955.

Approved unanimously.

Memorandum dated December 7, 1955, from Mr. Young, Director, Division of Research and Statistics, recommending an increase in the basic salary of Dorothy H. Ford, Clerk in that Division, from $3,515 to $3,670 per annum, effective January 1, 1956.

Approved unanimously.

Memorandum dated December 8, 1955, from Mr. Kelleher, Assistant Director, Division of Administrative Services, recommending that the resignation of Margaret P. Bates, Stenographer in that Division, be accepted effective November 19, 1955.

Approved unanimously.

Memorandum dated December 13, 1955, from Mr. Fauver, Assistant Secretary of the Board, regarding proposed visits to the Board's offices by a German group of five bankers on the afternoon of January 30, 1956, and by a Danish group during the latter part of February, 1956.

Approved unanimously.

Letter to Mr. Peterson, Vice President, Federal Reserve Bank of St. Louis, reading as follows:

In accordance with the request contained in your letter of December 9, 1955, the Board approves the designation of Mr. Donald Stephen Effrein as a special assistant examiner for the Federal Reserve Bank of St. Louis.

Approved unanimously.

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

This will acknowledge receipt of your letter of December 9, 1955, and enclosure with respect to the decision of the organizers to withdraw the application made on behalf of the Public Bank, Detroit, Michigan, for membership in the Federal Reserve System. The Board will consider the application withdrawn and the file closed.

Approved unanimously.

Letter to Mr. Pondrom, Vice President, Federal Reserve Bank of Dallas, reading as follows:

This refers to your letter of November 25, 1955, with respect to the plans of First State Bank of Corpus Christi, Corpus Christi, Texas, for construction of six drive-up tellers' windows to be located about 65 feet from the bank building on property also owned by the bank adjoining its banking quarters. It is stated that the intervening space is being used for parking purposes and will be held for future expansion of banking quarters.

Upon the basis of these facts, the Board agrees with the opinion of your Counsel that the operation of these proposed tellers' windows would not constitute the establishment of a branch and, therefore, the Board's approval is not required. However, in the event of a change in the ownership or use of the intervening space, the question whether this bank is operating a branch would require reconsideration.

Approved unanimously.

Letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington, D. C., reading as follows:

This is in reply to your letter of November 23, requesting the views of the Board of Governors with respect to a draft of a bill submitted by the Treasury Department "To amend the Revised Statutes, as amended, relating to reports required to be made by national banking associations."

Under existing law, a national bank is required to transmit a report of its condition to the Comptroller of the Currency "within five days after the receipt of a request" from the Comptroller for such report. The Treasury Department recommends that the maximum time for transmitting such reports be increased to ten days. Ten days is the period prescribed by the Federal Reserve Act with respect to reports of condition submitted by member State banks, and that period has proved to be satisfactory.

The Treasury Department also proposes the repeal of section 5212 of the Revised Statutes, which requires national banks to make special reports of each declaration of dividend. As pointed out by the Secretary of the Treasury, information with respect to dividends of national banks is also obtained from other sources.

State member banks are not required to make special reports at the time of every declaration of a dividend, but such information is obtained in the course of bank examinations and through semiannual reports of earnings and dividends. The Board agrees with the Treasury Department that there is no sufficient reason for retaining the requirement of reports of dividends by national banks at the time of each declaration of a dividend.

For the foregoing reasons, the Board of Governors recommends favorable action with respect to the proposed legislation.

Approved unanimously.

Governor Balderston referred to the action taken by the Board on December 12, 1955, in approving the salaries of the President and First Vice President at the Federal Reserve Bank of St. Louis, noting that

approval was then given to payment of salaries for the calendar year 1956, whereas the Board of Directors of that Bank had fixed the salaries for Messrs. Johns, President, and Deming, First Vice President, for the period January 1 through February 29, 1956. He suggested, therefore, that the Board's action be amended to provide that its letter to Mr. Alexander, Chairman of the St. Louis Reserve Bank, indicate that the Board had approved payment of these two salaries for the same period covered by the action of the St. Louis Board of Directors.

This suggestion was approved unanimously, with the understanding that a letter would be sent to Mr. Alexander in the following form:

The Board of Governors approves the payment of salaries to Mr. Johns as President and to Mr. Deming as First Vice President for the period January 1, 1956, through February 29, 1956, at their present rates of $30,000 and $22,000 per annum, respectively, as fixed by the Board of Directors as indicated in Mr. Johns' letter of November 10, 1955.

Before this meeting there had been sent to the members of the Board a memorandum from Mr. Solomon dated December 2, 1955, with respect to comments received on the proposed revision of Regulation K, Banking Corporations Authorized to Do Foreign Banking Business under the Terms of Section 25(a) of the Federal Reserve Act, as well as a memorandum from Mr. Goodman dated December 8, 1955, presenting additional comments regarding the proposed revision of the regulation, particularly with respect to certain points about which there was disagreement among the members of the

staff who had been working on the matter. The draft revision was prepared in the light of a study which the Board authorized in February 1954 and which resulted in formation of the Special Committee on Foreign Operations of American Banks (Neal Committee) under the chairmanship of Mr. Neal, First Vice President of the Boston Reserve Bank. One of the Edge corporations that had been asked to comment (Bank of America) requested an opportunity to present its views to the Board concerning the proposed revision, it having taken a position that materially wider latitude should be given to banking corporations to carry on operations in the United States as incidental to their foreign or international business than was indicated in the draft revision sent to them for comment. An "agreement" corporation which had been asked to comment (Morgan & Cie., Inc.) had taken a contrasting position, having stated that "each corporation subject to Regulation K should in this country be limited to activities directly incidental to specific business transactions conducted by such corporation abroad". Another point to which Morgan & Cie., Inc., objected was the proposal in the revision that "agreement" corporations operating pursuant to Section 25 of the Federal Reserve Act be brought within the scope of Regulation K, which formerly applied only to Edge corporations chartered by the Board under Section 25(a).

Governor Mills stated that in reviewing the material that had been submitted leading toward suggestions for amending the Regulation, he had

been impressed with the fact that there is a statutory and legal background that should be the foundation for reaching decisions -- a background going to the origins of the Edge Act and purposes of that Act as an instrument to promote the foreign trade of the United States in the financial area by permitting the facilities of American banks to operate on a favored status. At the same time, in granting that favored status, the Act apparently contemplated maintaining a position of status quo so that domestic American banks operating foreign departments in the same field would not be confronted with undue competition in their own activities. Some of the suggestions advanced for the amendment of the regulation, Governor Mills said, might go beyond the intention of the original statute in relaxing by administrative action the rules under which Edge Act banks and agreement corporations might operate. Governor Mills suggested this as a starting point for discussion of the proposed revision, with a view to determining to what extent the Board should allow itself to be persuaded by administrative considerations to accept a change which might not have been contemplated by the Congress in enacting the Edge Act.

Governor Szymczak said that Governor Mills had stated the problem clearly. He suggested that Mr. Solomon next express his views, as generally set forth in his memorandum dated December 2, 1955, after which he would like to have Mr. Goodman give the Board his views as presented in his memorandum dated December 8, 1955.

Mr. Solomon stated that the history of the Edge Act reflected a great deal of concern on the part of the Congress to give to corporations that might be chartered under Section 25(a) of the Federal Reserve Act very sweeping powers abroad and, at the same time, to be very careful about what such corporations might do within the United States. He noted that the law provided that no part of the business of an Edge corporation should be carried on in the United States except such as may be incidental in the judgment of the Board to the international or foreign business of such corporation. While this gave the Board leeway in deciding doubtful cases, Mr. Solomon felt that it did not give the Board carte blanche to disregard the restrictive provisions of the law as to domestic business. The legislative history of the Edge Act, Mr. Solomon said, emphasized the concern that Congress felt regarding the business such corporations might carry on in the United States.

Mr. Solomon went on to say that most of the suggestions that had been made for broadening the powers of Edge corporations by liberalizing Regulation K seemed to be supported by two arguments: namely, that such corporations would facilitate foreign trade and commerce of the United States, which was the aim of the Edge Act; and that since the activities primarily engaged in by an Edge Act corporation ultimately involved international transactions, it could be argued that additional "incidental" transactions should be permitted within the United States. On the first

of these arguments, it was Mr. Solomon's view that the Edge Act did not intend to facilitate foreign commerce by any means whatsoever, but only in a specific way. On the second point, the law did not say that Edge corporations could carry on international or foreign business in the United States but, rather, that they could not carry on business in the United States except that which is incidental to their foreign or international business. Mr. Solomon said that it was true that the Edge corporations could not now compete with other corporations in the United States as actively as they would like, and it was his view that this was in accord with the limited authority that Congress had indicated for such corporations for domestic transactions. Mr. Solomon concluded his statement by saying that most of the questions involved in the proposed revision of Regulation K could be resolved without too much difficulty if, as suggested in Mr. Goodman's memorandum of December 8, the Board would indicate whether it wished to have Edge Act corporations compete actively and aggressively in the United States with foreign departments of commercial banks.

Mr. Goodman then made a statement in which he said that the point about the incidental nature of the transactions that might be carried on by Edge Act corporations in the United States was very clearly set out in the law and in the comments Mr. Solomon made. These points were fully

considered by the Neal Committee in preparing its report and in reaching the conclusion that it would be desirable to revise Regulation K, not for the purpose of "relaxing" the regulation as might be implied by Governor Mills' comment, but in a manner which would provide ground rules, so to speak, under which Edge corporations could operate. In the past there had been very few general rules for the operations of such corporations, which had meant that the Board had found it necessary to apply specific rules to questions as they arose. In reviewing briefly the history of Edge Act corporations, Mr. Goodman brought out the point that relatively few had been formed, that most of these had been relatively small, and that the activities they had carried on had been relatively limited.

Mr. Goodman noted that Mr. Solomon, in expressing a minority view with respect to some of the recommendations contained in the Neal Committee report, had stated that such views were not based on legal, but on policy, considerations. Mr. Goodman went on to say that he assumed that everything that had been recommended by the Neal Committee could be done within the existing statute and that the matter was one for Board decision on the basis of the policy it wished to follow. Thus, if the Board would indicate whether it thought an Edge bank should be permitted to conduct in the United States the same type of operations that a well organized foreign department of a domestic bank carried on and that it should be

permitted to compete actively and aggressively with such foreign departments, the task of reaching conclusions on specific activities for Edge corporations would seem to be relatively simple.

Governor Szymczak stated that most of the Federal Reserve Banks had indicated that they would favor a revision of Regulation K along the lines proposed in the Neal Committee report and that they preferred the more liberal of the alternative provisions in the draft revision. The Board's Division of International Finance had also participated actively in preparing the Neal Report and had joined in its recommendations, he said, and he then called upon Mr. Marget for comments.

Mr. Marget said that he concurred in the views expressed by Mr. Goodman. He emphasized that he had understood, on the basis of Mr. Solomon's statement in the Neal Committee report, that the recommendations of that committee did not present questions of legality but that they could and should be decided on the basis of policy. His own views, Mr. Marget said, were in substantial agreement with the majority recommendations contained in the Neal report.

In response to a question from Governor Vardaman, Mr. Vest reviewed the consideration given by the Board in 1949 to a request by The Chase Bank, an Edge Act corporation, that it be permitted to acquire the stock of American Express Company. Mr. Vest said that in this case the Board concluded that such an investment should not be permitted because, while

American Express Company did business all over the world, it did a very substantial amount of business which was wholly domestic within the United States, and the Board felt that such business could not properly be classed as merely "incidental" to its foreign or international business.

Governor Szymczak said that the Board would face some practical problems if it accepted the more restrictive interpretation presented by Mr. Solomon in any revision of Regulation K. If that were done, the Board would have to pass on large numbers of questions concerning whether activities of an Edge Act corporation were "incidental" to its foreign business; whereas if it gave the broader interpretation to a revised regulation as suggested by the majority of the Neal Committee and by others, it would find it necessary to pass on a much smaller number of individual cases. Governor Szymczak noted that when the Edge Act was passed in 1919, it was directed mainly at facilitating exports from the United States. Over the years, conditions have changed and the concern now is with both exports and imports. The question, he said, was how far the Board should go in revising its regulation to permit these corporations to play a role in facilitating foreign trade under today's conditions and, at the same time, to keep their operations consistent with the intent of the law.

In response to a question from Governor Robertson, Mr. Solomon said that the statements he had made in the Neal Committee report were based entirely on policy considerations and not on legal considerations.

This was because the Neal Committee was dealing with policy questions. The views he had expressed this morning, concerning the limitations on the authority he felt the Board had for liberalizing Regulation K, were based entirely on legal considerations, although it so happened that his views from the legal standpoint coincided with the views he held as to policy. He went on to say that he always disliked having to say that the law required the Board to do a specific thing but that on many of the points covered in his memorandum of December 2 he felt the law contemplated a "no" answer on the part of the Board.

Mr. Vest stated that he was in general agreement with what Mr. Solomon had said as to the general intentions of the Edge Act. He thought, however, that questions as to what were "incidental" activities to the foreign or international operations of an Edge corporation were questions which could not be grouped together and answered with a statement that the law does or does not permit the activities. Each question had to be considered on its merits, Mr. Vest said, and he felt the Board had a reasonable amount of discretion in determining these questions because the law states specifically that what is incidental to the international or foreign business of an Edge corporation is a matter to be determined in the judgment of the Board of Governors of the Federal Reserve System. Mr. Vest said this did not mean that the Board could say "black is white" or "white is black", but that when it had a "gray" case, the Board could

determine one way or another on the basis of its judgment as to what was incidental in the light of the statute.

At the request of Governor Robertson, Mr. Solomon described in general terms the scope of activities of Edge Act corporations on the one hand, as chartered by the Board under Section 25(a) of the Federal Reserve Act; and of agreement corporations on the other, operating pursuant to the provisions of Section 25. In this connection, Governor Szymczak referred to the fact that the proposed revision would make agreement corporations subject to Regulation K, whereas previously the regulation covered only Edge corporations. He also noted the strong desire of Morgan & Cie., Inc., an agreement corporation, that it not be made subject to the regulation.

On this point, Mr. Solomon responded to a question from Governor Robertson by stating that the Board had very wide specific regulatory authority over Edge corporations. The Board's control over agreement corporations, which were chartered under State law, arose by agreement between each such corporation and the Board before a national bank or State member bank was permitted to purchase the stock of such corporation. Mr. Solomon said that the statute authorizing agreement corporations was somewhat narrower than the statute authorizing Edge corporations; agreement corporations could only be banking corporations and were for the purpose of operating entirely abroad as subsidiaries of domestic banks. Edge Act corporations might be chartered by the Board either for the purpose

of carrying on a banking business, including receiving of deposits, or as nonbanking corporations to do financing of exports from the United States. Mr. Solomon concurred in a statement by Governor Robertson that the essential purpose of both statutes was to enable domestic banking institutions to carry on a foreign business with limited liabilities; in other words, the underlying purpose was to encourage the development of an international business in foreign trade -- a field in which American banks formerly had been reluctant to engage.

In connection with Governor Robertson's statement, Mr. Goodman read an excerpt from the Annual Report of the Board for 1920 which stated that the real purpose of the Edge Act was "to provide for the establishment of a Federal system of international banking or financial corporations operating under Federal supervision with powers sufficiently broad to enable them effectively to compete with similar foreign institutions and to afford to the American exporter and importer at all times a possible means of financing his foreign business. Although it is true that the immediate effect of the operation of corporations under the terms of this section may be greatly to aid in the extension of much-needed credits to Europe, that effect is in reality only one incident to the permanent development of the American export market."

During the ensuing discussion, Governor Balderston raised a question as to the actual history of Edge Act corporations in financing exports and imports, noting the comments earlier in the discussion as to

the relatively small number of such corporations and the limited amount of their activity.

Mr. Solomon said that he thought the Edge Act had been carried out to the extent possible in view of the fact that Congress was trying to do two somewhat inconsistent things when it passed the Act, that is, to assist in developing foreign trade financing and at the same time to restrict domestic activities of the Edge corporations. He also commented that in the thirty-five year period since the Edge Act was passed there had been other developments in banking such as the growth of term loans, consumer credit, and the like, and that perhaps the need for activity under Section 25(a) of the Federal Reserve Act had been met to a considerable extent otherwise.

Messrs. Thurston, Young, and Marget withdrew during the foregoing discussion.

Governor Mills stated that the commercial banks which have engaged in formation of Edge corporations or "agreement" corporations through subsidiaries also operate foreign departments or foreign branches. He suggested that these subsidiary corporations were established for the purpose of engaging in transactions that would not conform to the type of commercial bank transactions that could be handled through the foreign banking department or a foreign branch. Governor Mills felt that if Edge corporations were permitted to engage in domestic transaction on a too liberal basis, the result might be that they would cross State lines and

engage in transactions closely related to interstate branch banking. One of the main problems, he said, was how to prevent a crossing of State lines by these corporations which would be contrary to State law and contrary to the intent of Congress with respect to interstate branch banking.

At this point the discussion was suspended with the understanding that it would be continued at the meeting tomorrow.

At this point the meeting recessed and reconvened later in the morning in executive session.

After the meeting, the Secretary was informed that during the executive session the following unanimous actions were taken with regard to the appointment of directors and the designation of Chairmen and the appointment of Deputy Chairmen at the Federal Reserve Banks of Boston, Cleveland, and Chicago:

For the Federal Reserve Bank of Boston, it was agreed that Chairman Martin would ask Chairman Hodgkinson to ascertain if Robert C. Sprague would accept, if tendered, designation as Chairman and Federal Reserve Agent for 1956; whether Dr. James R. Killian would accept, if tendered, appointment as Deputy Chairman for 1956; and whether Mr. Harvey P. Hood, President, H. P. Hood and Sons of Boston, presently a Class B director of the Bank, would accept, if tendered, appointment as a Class C director for a three-year term beginning January 1, 1956.

For the Federal Reserve Bank of Cleveland, it was agreed that Chairman Martin would contact Chairman Virden to determine whether

Mr. Arthur B. Van Buskirk, Vice President and Governor, T. Mellon and Sons, Pittsburgh, Pennsylvania, would accept, if tendered, appointment as a Class C director for a three-year term beginning January 1, 1956, and as Deputy Chairman of the Bank for 1956; and whether Mr. Ivan Jett, Jr., Georgetown, Kentucky, would accept, if tendered, appointment as a director of the Cincinnati Branch for a three-year term beginning January 1, 1956.

For the Federal Reserve Bank of Chicago, it was agreed that Chairman Martin would contact Chairman Coleman to determine whether Mr. Leland I. Doan, President, Dow Chemical Company, Midland, Michigan, would accept, if tendered, appointment as a director of the Detroit Branch for the unexpired portion of a term ending December 31, 1956.

It was also agreed to make all of the above appointments if the individuals involved indicated that they would accept.

The meeting then adjourned.

Secretary