

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, December 21, 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. Sherman, Assistant Secretary  
 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. 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 December 14, 1955, from Mr. Young, Director, Division of Research and Statistics, recommending that Athens J. Messick be transferred from the position of Stenographer in Governor Szymczak's office to the position of Secretary in the Division of Research and Statistics, with an increase in her basic salary from \$4,345 to \$4,485 per annum, effective as of the date she assumes her new duties.

Approved unanimously.

Memorandum dated December 13, 1955, from the Division of Personnel Administration, recommending that the basic salary of John H. Stetson,

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Personnel Technician in that Division, be increased from \$6,250 to \$6,390 per annum, effective January 1, 1955.

Approved unanimously.

Memorandum dated December 12, 1955, from Mr. Young, Director, Division of Research and Statistics, recommending that the following members of the Division of Research and Statistics be authorized to attend, at the Board's expense, the annual meetings of the American Economic Association, American Statistical Association, American Finance Association, and similar professional associations which are to be held concurrently in New York City during the period, December 27-30, 1955:

Ralph A. Young	Ramsay Wood
Clayton Gehman	Frank R. Garfield
Homer Jones	Kenneth B. Williams
Lorman C. Trueblood	Donald C. Miller
Arthur L. Broida	Stanley J. Sigel

The memorandum also recommended that the following members be authorized to attend the meetings at their own expense and that official leave be granted for this purpose:

Mona Dingle	Richard C. Pickering
Robert Solomon	John M. Culbertson
William F. Hellmuth	Evelyn H. Hurley
Peter M. Keir	John Frechtling
Eleanor J. Stockwell	Theodore Flechsig

Approved unanimously.

Letter to Mr. Latham, Vice President, Federal Reserve Bank of Boston, reading as follows:

In accordance with the request contained in your letter of December 12, 1955, the Board approves the appointment of William Joseph Lonergan as an assistant examiner for the Federal Reserve Bank of Boston. Please advise as to the date upon which the appointment is made effective.

Approved unanimously.

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Letter to Mr. Willis, Secretary, Federal Reserve Bank of New York, reading as follows:

Thank you for your letter of December 2, 1955, advising that the leave of absence without pay granted to Mr. Philip J. W. Glaessner has been extended to mid-February 1956, plus travel time, on the same terms as the original leave. It is noted that this extension was granted to permit Mr. Glaessner to complete the more urgent phases of his work as a member of the Klein & Saks Economic and Financial Mission to Chile.

In the light of the circumstances, the Board of Governors interposes no objection to the arrangement with respect to Mr. Glaessner as described in your letter.

Approved unanimously.

Letter to the Board of Directors, The Connecticut Bank and Trust Company, Hartford, Connecticut, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Boston, the Board of Governors of the Federal Reserve System approves the establishment of a branch at 71 Town Street in the Norwichtown section of Norwich, Connecticut, by The Connecticut Bank and Trust Company, provided the branch is established within six months from the date of this letter, and approval of the State authorities is effective as of the date the branch is established.

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

Letter to the Board of Directors, Long Island Trust Company, Garden City, 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 Long Island Trust Company, Garden City, New York, on the south side of Stewart Avenue, 150 feet east of the intersection of Clinton

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Road and Stewart Avenue in Garden City, New York, provided the existing branch at 839 Stewart Avenue in the Town of Hempstead, New York, is simultaneously discontinued and the change in location is accomplished within six months from the date of this letter.

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

Letter to the Board of Directors, The Toledo Trust Company, Toledo, Ohio, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System approves the establishment of a branch at the southeast corner of Central Avenue and Secor Road, Toledo, Ohio, by The Toledo Trust Company, Toledo, Ohio, provided the branch is established within one year from the date of this letter and the approval of the State authorities is in effect as of the date the branch is established.

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

Letters to Mr. Armistead, Vice President, Federal Reserve Bank of Richmond, reading as follows:

In view of the information submitted with your letter of December 13, 1955, and the Reserve Bank's favorable recommendation, the Board of Governors extends until December 31, 1956, the time within which The Bank of Virginia, Richmond, Virginia, may establish a branch at the intersection of Staples Mill Road and West Broad Street, Richmond, Virginia, under authorization contained in its letter of March 30, 1955.

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In view of the information submitted with your letter of December 13, 1955, and the Reserve Bank's favorable



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recommendation, the Board of Governors extends until January 30, 1956, the time within which The Bank of Virginia, Richmond, Virginia, may establish a branch in Village Shopping Center at Three Chopt Road and Patterson Avenue, Richmond, Virginia, under the authorization contained in its letter of March 30, 1955.

Approved unanimously.

Letter to the Board of Directors, The Great Falls National Bank, Great Falls, Montana, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as 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 Montana. The exercise of these powers, in addition to those heretofore granted to act as trustee, executor, administrator, and registrar of stocks and bonds, 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 Great Falls National Bank is now authorized to exercise will be forwarded to you in due course.

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

Letter to the Board of Directors, Security Trust & Savings Bank of San Diego, San Diego, 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 Security Trust & Savings Bank of San Diego, San Diego, California, in the vicinity of the intersection of College Avenue and Federal Boulevard, San Diego, California, provided the branch is established within one year from the date of this letter

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and that the approval of the State authorities is effective at the time the branch is established.

The time limit of one year is in accordance with the Board's general practice, but an extension may be granted if there has been no substantial change in the circumstances under which the branch is hereby authorized and satisfactory progress has been made toward placing the branch in operation as promptly as possible.

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

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 September 9, 1955, enclosing photostatic copies of an application to organize a national bank at Port Arthur, Texas, and requesting a recommendation as to whether or not the application should be approved.

According to information contained in a report of investigation of the application made by an examiner for the Federal Reserve Bank of Dallas it is planned to provide a capital structure of \$500,000 for the bank instead of \$400,000 shown in the application. This report discloses generally favorable findings with respect to the factors usually considered in connection with such proposals, except that reservations are expressed as to the competency of the proposed active management. The Board of Governors, therefore, recommends approval of the application provided arrangements are made for management satisfactory to your office.

The Board's Division of Examinations will be glad to discuss any aspects of the case with representatives of your office, if you so desire.

Approved unanimously.

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Letter to the Presidents of all Federal Reserve Banks reading as follows:

It is desired that the regular annual reports of holding company affiliates on Form F. R. 437 be obtained for the year ending December 31, 1955, or for the holding company affiliate's latest fiscal year if it differs from the calendar year. Accordingly, please request each holding company affiliate which has its principal executive office in your district, and which holds a general voting permit, to file such a report in duplicate with your Bank not later than February 1, 1956. However, if the annual audit of any such holding company affiliate by public accountants has not been completed by that date, the holding company may, if it so desires, await the completion of the audit, provided that its report to the Board is filed as soon as practicable thereafter.

Please inform us as to the number of copies of Form F. R. 437 which your Bank will need, in excess of its present stock, in obtaining the reports of holding company affiliates in your district. The form has not been revised.

It is requested that the annual reports of the holding company affiliates for 1955 be obtained and processed by your Bank in the same manner as the previous annual reports of holding company affiliates. This contemplates that one copy of each report will be forwarded to the Board immediately after receipt by your Bank, to be followed as soon as practicable by such additional data and explanations as you may find it necessary to obtain from the respective holding company affiliates to complete or correct their reports. It is contemplated also that, when your Bank has analyzed and reviewed the reports of examination by the supervisory authorities of the banks and their affiliated organizations in each group, and has completed the review of each report filed by a holding company affiliate, a copy of the memorandum relating to the review will be forwarded to the Board, together with any recommendations, comments, or suggestions which you may have regarding each case.

Approved unanimously.

Governor Vardaman stated that there had been circulated to him prior to consideration at a meeting of the Board, a proposed letter to

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the Federal Reserve Bank of Chicago which would authorize the payment of salaries up to certain rates to building maintenance employees, and that since he would not be present when the matter came before the Board, he wished to be recorded as not approving the proposal for the reason that he felt that the Board should not give its approval in the manner proposed in the letter.

Before this meeting there had been circulated to the members of the Board a draft of proposed letter to the Bureau of the Budget commenting on the proposed bill, "Area Assistance Act of 1956".

Governor Balderston suggested a revision in the letter and, following discussion, the letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington, D. C., was approved unanimously in the following form:

This is in reply to your letter of December 9, addressed to Chairman Martin, requesting the views of the Board of Governors on the draft bill "Area Assistance Act of 1956".

The Board is in sympathy with the broad purposes of legislation to help deal constructively with the problems of substantial and persistent unemployment in some localities. Without making a detailed study of all aspects of the bill, most of which are outside the Board's sphere of direct responsibility, the Board regards the proposed legislation as a constructive approach to the handling of this important problem.

Chairman Martin stated that Mr. Young had been requested by Mr. Stanley Ruttenberg, an economist for AFL-CIO, to discuss the flow of funds



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study with a group of economists of the AFL-CIO when they meet in Washington on the morning of January 19, 1956. He went on to say that Mr. Young was willing to meet with the group and that it would be desirable for him to do so for the purpose of explaining the study.

Approved unanimously.

Mr. Thomas, Economic Adviser to the Board, entered the room at this point.

Chairman Martin suggested that the Board resume at this time discussion of 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, which had been taken up at the meeting yesterday.

Governor Szymczak referred to the discussion at yesterday's meeting of the formation of the Neal Committee and the Legal Committee to prepare alternative drafts of a revised Regulation K, and to the request of Bank of America that it be given an opportunity to present its comments on the proposed revision to the Board. He suggested that, after further discussion of the revision of Regulation K, the Board might wish to give both Bank of America and Morgan and Cie., Inc., an opportunity to present their views regarding the proposed changes.

Governor Robertson suggested that, as a matter of procedure, the current discussions of the proposed revision of Regulation K be for the

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purpose of giving the Board a full understanding of the problems involved, including differences of view among members of the Special and Legal Committees, after which, without reaching a decision as to what revision might be made in the regulation, the Board invite representatives of Bank of America and Morgan and Cie., Inc., to meet with it for the purpose of hearing their views. It was tentatively understood that the procedures outlined by Governor Szymczak and Governor Robertson would be followed in carrying forward the current discussions.

At Chairman Martin's request, Mr. Goodman then made a statement regarding some of the views expressed in the 1920s to the effect that Edge Act corporations had not been permitted to become very effective in financing exports from the United States because of limitations placed upon their activities by the Board's regulation.

Mr. Solomon reviewed the main points of difference among committee members in connection with the report submitted by the Neal Committee and the draft revision prepared by the Legal Committee, as summarized in Mr. Solomon's memorandum dated December 2, 1955, and Mr. Goodman's memorandum dated December 8, 1955, copies of which had been distributed to the members of the Board.

In the course of the ensuing discussion, Governor Mills stated that it seemed to him desirable for the Board to assure itself that there was a legal basis for a revision of Regulation K that would liberalize

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past practices by allowing both banking corporations and nonbanking corporations to engage in activities that are contestable as to whether they are incidental to the foreign business of such corporations. He wondered what might ultimately be the scope of activities of Edge corporations formed as subsidiaries of large American banks. It was his view that such subsidiaries existed only as a vehicle for engaging in transactions that were prohibited to the parent banks in their more far flung activities or in their branch programs. With respect to nonbanking Edge corporations, Governor Mills felt that there was an appropriate place in the scheme of financing for such corporations which could accomplish certain things which could not be done through the banking corporations. He said he was rather confident that there was a legal basis for the Board to adopt liberalizing provisions in the regulation and, if the Board wished to do so, it would have the troublesome problem of determining to what extent it was appropriate to allow the banking corporations that might be authorized to operate under the regulation to engage in domestic transactions on the basis that such activities were "incidental" to their foreign or international business. In response to a question by Governor Balderston as to whether such revisions might permit an Edge corporation to carry on functions in the United States which were contrary to the general philosophy of commercial banking in this country, Governor Mills said that he was inclined to believe that for the present any revision in Regulation K should be confined to smoothing out and

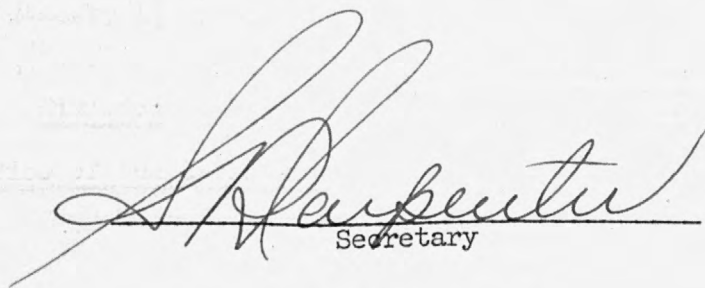
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clarifying the present language of the regulation, without liberalizing the "incidental theory" for banking corporations. However, he would favor liberalization of the sphere of activities of nonbanking corporations.

Chairman Martin stated that the discussion at the meeting yesterday and today had been very helpful in clarifying the material which had been submitted in connection with the proposed revision of Regulation K. He suggested that, as had been indicated by Governors Szymczak and Robertson at the beginning of this meeting, after the Board had completed its general discussion of the background of the proposed revision, it would be helpful to hear the comments of representatives of Bank of America and Morgan and Cie., Inc., and perhaps others, after which the Board could consider the more detailed problems connected with a change in the regulation.

It was understood that this procedure would be followed.

The meeting then adjourned.

  
Secretary