Minutes for January 3, 1956

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	x	
Gov. Szymczak	x	
Gov. Vardaman		x
Gov. Mills	x	
Gov. Robertson	x	
Gov. Balderston	x	
Gov. Shepardson	x	

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, January 3, 1956. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel

The following members of the staff of the Division of Research and Statistics also were present:

Mr. Young, Director
Mr. Garfield, Adviser on Economic Research
Miss Burr, Assistant Director
Mr. Noyes, Assistant Director
Mr. Koch, Assistant Director
Mr. Brill, Chief, Business Finance and Capital Markets Section
Mr. Eckert, Chief, Banking Section
Mr. Gehman, Chief, Business Conditions Section
Mr. Jones, Chief, Consumer Credit and Finances Section
Mr. Miller, Chief, Government Finance Section
Mr. Weiner, Chief, National Income, Moneyflows, and Labor Section
Mr. Trueblood, Economist
Mr. Wernick, Economist
Mr. Wood, Economist

Members of the Research Division presented a review of economic and financial developments, following which they withdrew from the meeting. Mr. Thomas also withdrew and Mr. Leonard, Director, Division of Bank Operations, entered the room.

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 stated:

Memorandum dated December 22, 1955, from Mr. Young, Director, Division of Research and Statistics, recommending that the basic annual salary of Charlotte T. Breckenridge, Research Assistant in that Division, be increased from $3,755 to $3,940, effective January 15, 1956.

Approved unanimously.

Letter to Mr. Dawes, Secretary, Federal Reserve Bank of Chicago, reading as follows:

> The Board of Governors approves the appointments of Messrs. C. Harvey Bradley, John W. Evers, Walter Harnischfeger, Edward M. Kerwin, and James L. Palmer as members of the Industrial Advisory Committee for the Seventh Federal Reserve District to serve for terms of one year each beginning March 1, 1956, in accordance with the action taken by the Board of Directors as reported in your letter of December 19, 1955.

Approved unanimously.

Letter to Mr. William L. Kleitz, President, Guaranty Trust Company of New York, New York, New York, reading as follows:

> This refers to your letter of October 26 acknowledging receipt of the Board's letter of October 7, 1955, transmitting copies of the reports of examination of the foreign branches of your bank made by examiners for the Board of Governors, as follows:
>
> Brussels Branch--April 8, 1955;
> Paris Branch--April 27, 1955;
> London Branches--May 14, 1955.

You state that the Board's letter and the reports were presented to the Board of Directors of your bank at its meeting held October 19, 1955, and that the comments of the examiner were discussed in detail with the Directors. The Board has noted your observations regarding the comments, recommendations, and suggestions of the examiner and the actions taken or contemplated with respect to them.

American Depositary Receipts--London Branches. - With reference to the suggestion of the examiner on page 10 that the management give consideration to the desirability of changing the form of the American Depositary Receipt to indicate specifically that the London Branch may accept a broker's undertaking to deliver, supported by cash collateral, pending the actual delivery of stock or shares, it is noted that you feel the safeguards which surround the practice are such that no holder of American Depositary Receipts will suffer and the advantages to the market which result from the practice justify its continuance. You further state, if you were to change the form, it would tend to cause needless misgiving and concern on the part of some holders.

The Board recognizes the possible misunderstanding that might arise from the phrase "evidences of rights to receive from the Company" which is used in connection with some issues of securities. It is understood, however, that in recent arrangements for the issuance of American Depositary Receipts the words "from the Company" have been eliminated from the receipt.

Foreign Exchange Position--Brussels, Paris, and London Branches. - You comment that you do not maintain control ledgers showing the total amount of future exchange contracts as it would entail considerable expense without compensating advantages since, in your opinion, complete departmental control of transactions, together with independent verification by the Auditing Department, provide adequate protection.

It has been noted that the schedules "Contingent Liabilities" in the reports of examination of the Brussels, Paris, and London Branches indicate that the liability for Foreign Exchange Future Contracts was not reflected in the "Officer's Statement of Assets and Liabilities." It is a generally recognized bank accounting practice that the contingent liability for future exchange bought and sold should be maintained as a part of the

general ledger records of a bank, either in the general ledger itself or in subsidiary and auxiliary records. It is understood that the experience of other banking institutions with extensive activity in this field would indicate that relatively little additional expense is involved in maintaining such a record. Accordingly, it is suggested that your bank give further consideration to the desirability of maintaining currently, in connection with your general ledger records at your Brussels, Paris, and London branches, control accounts reflecting your aggregate contingent liability for foreign exchange futures bought and sold.

Borrowings--Paris Branch. - With reference to the comments of the examiner on pages 8, 32, and 33 that the branch had been effecting collection of various items received for collection through the rediscount mechanism of the Bank of France because of its superior collection facilities, you state that the various customers concerned have been advised of the procedure followed by the Paris Branch in rediscounting drafts and they have all agreed that it is in order to continue the method followed.

As it is understood that this procedure is not a recognized collection facility provided by the Bank of France, the Board would be disposed to question the propriety of the practice unless the management of the Paris Branch has received assurances from the Bank of France that the procedure meets with its approval.

Approved unanimously, with a copy to the Federal Reserve Bank of New York.

There were presented telegrams to the Federal Reserve Banks of Richmond, Chicago, and St. Louis approving the establishment without change by those Banks on December 29, 1955, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

At this point Mr. Hexter, Assistant General Counsel, entered the room.

Reference was made to a memorandum dated December 23, 1955, from Mr. Farrell, Assistant Director, Division of Bank Operations, concerning the current policy pursuant to which representatives of that Division accompany representatives of the Treasury Department on visits to Federal Reserve Banks and branches to inspect the procedures being followed in connection with the verification and destruction of United States currency. The memorandum stated that all Reserve Banks and branches which perform these operations had now been visited, that at each office the Treasury representative reported to the management that his inspection did not reveal any major exceptions to Treasury regulations, and that the Board's field examining staff regularly reviews the currency verification and destruction operation and comments thereon in the reports of examination of the respective Reserve Banks. The memorandum therefore recommended that participation by the Division of Bank Operations in the inspections by the Treasury Department be discontinued until such time as additional visits might seem desirable because of a change in procedure or other special circumstances.

Following supplementary comments by Mr. Leonard, Governor Mills remarked that the reports of examination of the Federal Reserve Banks usually contain comments and suggestions regarding procedures followed

in connection with the currency verification and destruction operation. In the circumstances, and in view of the relatively recent date on which the operation was undertaken, he inquired of Mr. Leonard whether the attention given to the function by the Board's examining staff and the Reserve Bank auditors constituted a sufficient safeguard against any defects which might not yet have been eliminated.

Mr. Leonard replied that the points brought to light during the Treasury inspections were minor, that the majority were developed by the Board's staff and not by the Treasury representatives, and that he doubted whether another round of visits with the Treasury representatives would develop many additional points.

Thereupon, the recommendation contained in Mr. Farrell's memorandum was approved unanimously.

At this point Mr. Sloan, Director, Division of Examinations, joined the meeting and Mr. Young, Director, Division of Research and Statistics, returned to the room.

Consideration was given to a letter from the Federal Reserve Bank of Chicago dated December 21, 1955, requesting authorization to make settlement, in the amount of $82,000, for the cancellation of a lease held by a tenant in a building located at Wells and Jackson Streets in Chicago which was acquired by the Reserve Bank in October 1954 for future expansion. (The lease had four years and three months to run after January 1, 1957.)

In the letter President Young stated that the Bank's directors were expected to give final approval to a settlement at that figure at their meeting on December 29, and a subsequent telegram from the Reserve Bank advised that the directors gave such approval. The December 21 letter also stated that in the same building an individual operating a barber shop held a lease which would not expire until June 30, 1959, and that the Bank felt that the lease could be terminated for about $5,000. The letter suggested that the cancellation of this lease be left to the judgment of the Chicago directors without further reference to the Board of Governors. These were the only two leases in which the question of payment for cancellation was involved, all other leases expiring or being cancellable on or before December 31, 1956.

In a memorandum dated December 28, 1955, copies of which had been sent to the members of the Board, Mr. Leonard stated that the question of compensation for the cancellation of a lease seemed to be essentially a matter of business judgment and recommended that a telegram reading as follows be sent to President Young:

> Board interposes no objection to the payment of $82,000 for cancellation of lease of Gus Assimos and partners in the building at Jackson and Wells Streets in accordance with action of your Board of Directors as outlined in your letter of December 21 and confirmed in Harris' wire of December 29.
>
> In accordance with your suggestion, cancellation of lease, at a cost of approximately $5,000, covering barber shop in same building may be handled by your Directors without further reference to Board.

Following further comments on the matter by Mr. Leonard, the telegram was approved unanimously.

Mr. Leonard then withdrew from the meeting.

There had been circulated to the members of the Board a memorandum from the Division of Examinations dated December 8, 1955, concerning the possible establishment by the Board of a general policy with respect to absorptions, mergers, consolidations, and the granting of voting permits in cases involving holding company groups where there is an apparent concentration of holding company interest in the areas involved. The memorandum stated that recently the Office of the Comptroller of the Currency adopted the procedure of requesting the Board's opinion as to the Clayton Act aspects of any absorptions involving the establishment of branches by national banks in holding company affiliate groups. In view of that development and recent cases coming before the Board as the primary Federal bank supervisory authority, the Division of Examinations proposed that, depending on the circumstances in any given situation, the Board might, in geographical areas where a holding company affiliate group holds an unduly dominant position, establish a general policy of (1) advising the Comptroller, after receipt of a request for the Board's opinion, that the Board does not look with favor upon an absorption, merger, or consolidation involving the establishment of a branch, and (2) refusing to permit an absorption, merger, or consolidation involving the establishment of a branch or a "section 18c" determination in those instances where a State member bank is involved and the Board is the primary Federal supervisory authority, even though (a) the Clayton Act aspects of the case are

not such that a proceeding should be instituted under Section 7 of that Act, and (b) the holding company affiliate may then own, or subsequently acquire, the controlling stock of the bank proposed to be absorbed, merged, or consolidated, and even though the Board has issued, or might at a later date feel it desirable to issue, a general voting permit covering the bank once proposed to be absorbed, merged, or consolidated with another bank in the group. The memorandum went on to discuss reasons which might justify the Board, in any given case, in taking a position that it would look with disfavor upon, or in declining to permit, the absorption of other banks and their establishment as branches by banks in holding company affiliate groups. Among other things, reference was made to the desirability of keeping situations representing a substantial concentration in such a status that future action under the Clayton Act, when and if deemed necessary, could be presented in the most favorable manner and any divestment orders resulting from such a proceeding could be carried out. It also expressed the view that under certain conditions the granting of a voting permit covering stock of a bank once proposed to be absorbed would not be incompatible with the subsequent institution of proceedings under the Clayton Act.

Two related memoranda also had been circulated to the members of the Board. The first memorandum, submitted by the Division of Examinations under date of December 12, 1955, stated that the Office of the Comptroller of the Currency had inquired informally of Governor Robertson regarding

the Clayton Act aspects involved in the proposal of First Security Corporation, Salt Lake City, Utah, a holding company affiliate, to have a controlled bank, First Security Bank of Idaho National Association, Boise, Idaho, absorb the American Bank and Trust Company, Lewiston, Idaho, control of which was acquired by First Security Corporation in September 1955. If the absorption should be consummated and American Bank and Trust Company converted into a branch of the national bank, the city of Lewiston, with a population of about 13,000 would have as its only banking facilities two branches of the First Security Bank of Idaho, N. A., and a branch of The Idaho First National Bank, also of Boise. As a result of the acquisition of American Bank and Trust Company, the control of commercial banking facilities and deposits by First Security Corporation increased in Lewiston from 33 per cent and 45 per cent to 67 per cent and 65 per cent, respectively; in Nez Perce County from 25 per cent and 44 per cent to 50 per cent and 63 per cent, respectively; in Nez Perce and three surrounding counties from 37 per cent and 47 per cent to 44 per cent and 55 per cent, respectively; and in the State of Idaho from 27 per cent and 32 per cent to 28 per cent and 34 per cent, respectively. The Federal Reserve Bank of San Francisco had reported that, according to the president of First Security Corporation, the reasons for the sale included the age of American Bank and Trust Company's principal stockholder, considerations involved in improving his estate and inheritance tax position, and the price paid for the stock.

In the second memorandum on the Lewiston matter, dated December 19, 1955, Mr. Vest stated:

> In these circumstances, it is possible that there would be a technical case for the application of section 7 of the Clayton Act, which prohibits the purchase of stock of one corporation by another where "in any section of the country" the effect may be substantially to lessen competition. Some doubt is thrown on this, however, by the fact that the meaning of the phrase "section of the country" in the law is not altogether clear and it might well be argued that it would not include a small town or area such as that here involved. Of course, if the Board should wish to consider the feasibility of a Clayton Act proceeding in a case of this kind, it would seem that the first step would be to make a very careful investigation of all the facts to determine whether a substantial lessening of competition could be proven, with particular reference to whether such proof could be adduced from testimony in addition to that involved in the presentation of statistics.
>
> Since the court decision in the Transamerica case, the Board has not taken steps with a view to institution in any case of proceedings under section 7 of the Clayton Act. The difficulties of having a successful proceeding in a case involving a large area and a large banking group were demonstrated in the Transamerica proceeding, and the institution of a proceeding in a situation involving only a small community, even if legally possible, would leave the bulk of these situations undisturbed.

In commenting on the December 8 memorandum, Mr. Sloan pointed out that under the present law the Board has no control over the acquisition of stock of banks by bank holding companies and said that the proposal was submitted in the light of that fact.

Questions by Governor Robertson brought out that there were only two matters now before the Board to which the proposed policy would have

applicability and that there was no reason to anticipate a large number of cases in the near future. For this reason, and in view of the favorable prospect for passage of bank holding company legislation which would require advance approval of bank stock acquisitions by holding companies, he suggested that such cases as might come before the Board for the time being be dealt with on an individual basis. In considering them, he pointed out, the Board could bear in mind the considerations mentioned in the memorandum from the Division of Examinations.

There was agreement with this suggestion and the discussion then turned to the Lewiston, Idaho, matter.

Mr. Vest commented that while the acquisition of the relatively small independent bank apparently would result in some lessening of competition and while, from the technical standpoint, it was possibly a case where the Board might consider a Clayton Act proceeding, it was not clear from the legislative history whether a small town or area was meant to be included in the phrase "any section of the country" as used in the Act. He said that there were undoubtedly a number of places in the country where a situation having at least the same amount of justification for a proceeding existed. Referring to the decision of the United States Court of Appeals in the Clayton Act proceeding against Transamerica Corporation, he said that the chief point to be kept in mind in this connection was that there must be some determination of the area of competition and that from the legislative history of the 1950 amendments to the Clayton Act it was not clear whether a town or small area was supposed to be covered.

Governor Robertson said he thought that the acquisition of American Bank and Trust Company did constitute some diminution of competition within the area, that theoretically the case fell squarely within the Clayton Act, but that the case was too small to warrant any action on the part of the Board. He doubted that the bank's management could have disposed of the stock to other local interests and pointed out that there would be banking competition in the community between the local branches of the two large institutions.

Governor Mills concurred in Governor Robertson's views. He then inquired whether, as a guide for the future, the Legal Division could prepare a memorandum in which it would take an actual or hypothetical case and, assuming that the Board wished to institute a Clayton Act proceeding, describe what might be involved in the prosecution and defense of the case.

After commenting on some of the things that would have to be proved in a Clayton Act proceeding, and the defenses that might be made, Mr. Vest said that the Legal Division would be glad to submit a memorandum of the kind mentioned by Governor Mills.

Governor Szymczak stated that if the Board were to proceed under the Clayton Act in such a small case, the question might arise whether it was the purpose of the law to proceed under such circumstances unless it was apparent that some real harm would result. He concurred, therefore, in the position of Governor Robertson.

Governor Shepardson said that, granting the case was a small one, he was somewhat concerned that the expansion of a holding company through the take-over of small institutions might result in the company eventually reaching a dominant position in an area even though no one step in the process involved a significant change in the competitive situation.

Governor Balderston stated that he shared the concern expressed by Governor Shepardson and that unit banking might be threatened in future years by actions of this type. On the other hand, he felt it was possible that a small community could be served better by two efficient competing institutions than by a somewhat larger number of less efficient institutions. In larger communities, he said, it seemed obvious that a larger number of banking facilities was needed to provide proper service and competition but it was difficult to set up any general standards. He would go along with Governor Robertson's views in the Lewiston case, but with some reluctance because of considerations such as mentioned by Governor Shepardson.

If it were not for the prospective enactment of bank holding company legislation, Governor Robertson said, he would be much more inclined to think that the Board should take some action in a case like this and perhaps should endeavor to reach an understanding with First Security Corporation pursuant to which the Corporation would agree to advise the Board in advance regarding any proposed acquisitions of additional banks.

Following further discussion of the prospects for passage of bank holding company legislation, it was agreed that

Governor Robertson would advise the Office of the Comptroller of the Currency informally that the Board did not feel that the Lewiston case was such as to warrant any action under the Clayton Act.

During the foregoing discussion Governor Szymczak withdrew from the meeting. At its conclusion Mr. Hexter withdrew and Messrs. Thurston, Assistant to the Board, and Cherry, Legislative Counsel, entered the room.

Pursuant to the understanding at the meeting on December 28, 1955, there had been sent to the members of the Board copies of a revised draft of letter to Representative Spence, Chairman of the House Committee on Banking and Currency, regarding his request for the Board's views on H. R. 569, which would increase the number of members of the Board of Governors from seven to twelve, abolish the Federal Open Market Committee, and transfer the Committee's functions to the Board of Governors. Copies of an alternative draft, prepared subsequently by Governor Shepardson, also had been sent to the members of the Board.

All of the members of the Board indicated that they favored Governor Shepardson's draft, with one minor change suggested by Chairman Martin.

With reference to the historical memorandum on questions raised by H. R. 569 proposed to be transmitted with the letter, Mr. Cherry stated that the memorandum had been revised to eliminate certain letters that had not been made public and to incorporate excerpts from a Legal Division memorandum on the history of the Banking Act of 1935.

Thereupon, unanimous approval was given to a letter from Chairman Martin to Chairman Spence reading as follows:

In response to your request for the Board's views on H. R. 569, the members of the Board have asked me to advise your Committee that they do not favor enactment of this measure which would increase the number of Board members from seven to twelve, abolish the Federal Open Market Committee, and transfer its functions to the twelve-man Board.

As you know, the present Board and Committee structure is the product of much constructive thought and action by statesmen, economists, bankers, businessmen, and other leaders and has been arrived at after long consideration and debate on the part of the Congress. It should not be fundamentally changed without extensive hearings to permit comprehensive expression of opinion by bankers, businessmen, economists, and others interested in this important subject and full consideration of the views of members of the Congress and officials of the Federal Reserve System. This is especially so because the questions raised by H. R. 569 are of such far-reaching significance to the economy. In our judgment, the System's organizational structure should be changed only if such hearings and study should develop an unquestionably better organization.

The Board's staff has prepared an historical memorandum on the questions raised by H. R. 569 and we are enclosing copies for the information of the Committee.

In accordance with actions agreed upon at previous meetings of the Board in executive session, as a result of which it was ascertained informally that the appointments and designation referred to in the following telegrams would be accepted if tendered, the telegrams were approved unanimously:

To Mr. Walter M. Mitchell, Vice President, Draper Corporation, Atlanta, Georgia

Board has appointed you director Federal Reserve Bank Atlanta for term ending December 31, 1958 and has designated

you Chairman Atlanta Bank and Federal Reserve Agent for 1956. It has fixed your compensation as such on same basis as corresponding position in other Reserve Banks. Acceptance by collect telegram would be appreciated. It is understood you are not a director, officer, or stockholder of any bank and that you do not hold any political or public office. Announcement of your appointment is being coordinated with Atlanta Bank.

To Mr. Harllee Branch, Jr., President, Georgia Power Company, Atlanta, Georgia

Board has appointed you Deputy Chairman Federal Reserve Bank Atlanta for 1956. Acceptance by collect telegram would be appreciated.

Announcement of your appointment is being coordinated with Atlanta Bank.

To Mr. Henry G. Chalkley, Jr., President, Sweet Lake Land & Oil Company, Inc., Lake Charles, Louisiana

Board has appointed you Class C director Federal Reserve Bank Atlanta for term ending December 31, 1957. Acceptance by collect telegram would be appreciated. It is understood you are not a director, officer, or stockholder of any bank and that you do not hold any political or public office. Should situation change in these respects during your tenure please advise Chairman Atlanta Bank. Announcement of your appointment is being coordinated with Atlanta Bank.

The meeting then adjourned.

Secretary's Note: Pursuant to action taken by the Board on December 22, 1955, a telegram was sent today to the President of each Federal Reserve Bank stating that the Board had established, under authority of section 16 of the Federal Reserve Act, the rate of(see column 1) per cent per annum interest for the preceding three calendar months on the daily average

(see column 2) of outstanding Federal Reserve notes of the Bank in excess of gold certificates pledged with the Federal Reserve Agent as collateral security; and requesting that an interest payment of (see column 3) be credited to the Treasurer's General Account today:

	(1)	(2)	(3)
Boston	1.48602	$ 1,006,344,015	$ 3,769,346.70
New York	2.53304	3,450,169,497	22,028,120.43
Philadelphia	1.66240	1,149,761,273	4,817,682.44
Cleveland	1.70779	1,490,363,576	6,415,369.23
Richmond	1.34136	1,255,502,679	4,244,807.09
Atlanta	1.68370	922,798,495	3,916,215.23
Chicago	2.06694	2,813,316,109	14,656,874.38
St. Louis	1.33639	860,225,299	2,897,613.06
Minneapolis	1.70699	429,662,487	1,848,644.39
Kansas City	1.70481	793,910,235	3,411,476.22
Dallas	1.22744	479,111,903	1,482,286.64
San Francisco	2.21859	1,288,105,988	7,203,169.15

The payments for the Federal Reserve Banks of Dallas and San Francisco were determined after deducting the amounts of $3,140,605 (including $1,500,000 deducted in the third quarter) and $1,598,214, respectively, to bring surplus, section 7, of those Banks up to an amount equal to 100 per cent of subscribed capital stock.

Secretary