Minutes for February 20, 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 R | |
| Gov. Balderston | x CoB | |
| Gov. Shepardson | BKS → | x |

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, February 20, 1956. 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. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Vest, General Counsel
Mr. Sloan, Director, Division of Examinations
Mr. Myrick, Assistant Director, Division of Bank Operations
Mr. Hackley, Assistant General Counsel
Mr. Cherry, Legislative Counsel
Mr. Thompson, Supervisory Review Examiner, Division of Examinations

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:

Letter for the signature of Chairman Martin to Mr. Maxwell Abbell, Chairman, The President's Committee on Government Employment Policy, Washington, D. C., reading as follows:

> This letter is in reply to your memorandum of February 3 outlining the duties and responsibilities of Employment Policy Officers and Deputy Employment Policy Officers.
>
> This material has been given to Mr. S. R. Carpenter, Secretary of the Board, who as you know has been designated as Employment Policy Officer for the Board of Governors. Considering the size of the staff of the Board, it is felt that one Deputy Employment Policy Officer will be adequate;

and Mr. Clarke L. Fauver, Assistant Secretary of the Board, has been so designated. I am sure he would appreciate receiving a copy of the check-list of duties and responsibilities.

Approved unanimously.

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

The Board of Governors approves the appointments of Messrs. Arthur G. Nelson, Edward J. Noble, and William H. Pouch as members of the Industrial Advisory Committee for the Second Federal Reserve District to serve for terms of one year each beginning March 1, 1956, in accordance with the action taken by the executive committee of the Board of Directors as reported in your letter of February 9, 1956.

Approved unanimously.

Letter to Mr. Strathy, Secretary, Federal Reserve Bank of Richmond, reading as follows:

The Board of Governors approves the appointments of Messrs. Overton D. Dennis, Edwin Hyde, and Walker D. Stuart as members of the Industrial Advisory Committee for the Fifth 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 February 9, 1956.

Approved unanimously.

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

In accordance with the request contained in your letter of February 7, 1956, the Board approves the designation of Robert Leo Darrow as a special assistant examiner for the Federal Reserve Bank of Chicago.

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In accordance with the request contained in your letter of February 8, 1956, the Board approves the designation of James Mitchell Moran as a special assistant examiner for the Federal Reserve Bank of Chicago.

Approved unanimously.

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

In accordance with the request contained in your letter of February 6, 1956, the Board approves the appointments of Robert L. Callaway and Charles A. Pape as assistant examiners for the Federal Reserve Bank of Dallas.

Please advise as to the dates upon which the appointments are made effective.

Approved unanimously.

There were presented telegrams to the following Federal Reserve Banks approving the establishment without change on the dates indicated of the rates of discount and purchase in their existing schedules:

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|---|---|
| Boston | February 13 |
| San Francisco | February 15 |
| New York | February 16 |
| Philadelphia | February 16 |

Approved unanimously.

At this point Messrs. Riefler, Assistant to the Chairman, Thomas, Economic Adviser to the Board, and Young, Director, Division of Research and Statistics, entered the room.

In view of a question which had been raised by member banks in the First Federal Reserve District, Mr. Erickson, President of the Federal Reserve Bank of Boston, wrote to the Board under date of January 27, 1956,

regarding the eligibility as collateral for advances by Federal Reserve Banks to member banks under section 13 of the Federal Reserve Act of obligations issued by States, counties, and political subdivisions in anticipation of the collection of taxes or the receipt of other revenues. The question arose because in describing paper eligible as security for section 13 advances, the revised Regulation A, Advances and Discounts by Federal Reserve Banks, which became effective February 15, 1955, referred to paper eligible for purchase under the provisions of the Federal Reserve Act instead of the provisions of Regulation B, Open Market Purchases of Bills of Exchange, Trade Acceptances, and Bankers' Acceptances under Section 14, and municipal obligations of the type mentioned are eligible for purchase under section 14(b). The revised regulation also omitted the detailed listing of the types of paper acceptable as security for section 10(b) advances, and these changes suggested that the Board might have reversed its position as to the eligibility of municipal tax anticipation obligations as collateral for section 13 advances. A draft of reply to President Erickson had been circulated to the members of the Board which would point out that it had been the position of the Board since 1916 that tax anticipation obligations of States, counties, and municipalities are not eligible for use as collateral for advances under section 13. It would also state that the recent revision of Regulation A was not intended to reflect any change in this position. When the file was in circulation to the members of the Board, Governor Vardaman stated that he would like

to be present at the Board meeting when the matter was discussed.

At the request of Governor Vardaman, Mr. Hackley reviewed the position heretofore taken by the Board on this matter and said there was nothing in the files to indicate that a change in that position was intended by the wording of the 1955 revision of Regulation A. In commenting on the situation, he drew in part upon information contained in his memorandum of January 31, 1956, which had been circulated to the members of the Board. This memorandum suggested that if the draft of letter to President Erickson were approved, copies be sent to all of the Federal Reserve Banks to avoid misinterpretation of Regulation A and make the Board's position clear.

Governor Vardaman stated that he thought the matter warranted discussion because, while the Board's position in 1916 undoubtably was correct in view of the situation prevailing at that time, there had since been substantial changes in the mechanics of municipal financing, along with changes in the qualitative characteristics of tax anticipation obligations. For this reason, he suggested that it might be advisable to have the subject reviewed.

Governor Mills expressed the view that there should be no change in the Board's position. He pointed out that municipal tax anticipation warrants are acceptable as collateral for section 10(b) advances and said that a ruling which would make them eligible as security for advances

under section 13 might give rise to requests that other types of obligations be determined to be eligible. In this connection, he referred to the recent proposal which would make debentures of the Bank for Cooperatives eligible as collateral for section 13 advances. He went on to say that member banks normally hold in their portfolios substantial amounts of United States Government securities and commercial paper eligible for section 13 advances, which assures the banks that they will not be foreclosed from access to Federal Reserve credit. To maintain the present position, he said, would not mean that the Board was in any way shrinking the volume of securities eligible as collateral for section 13 advances, but merely that the Board was not liberalizing its present position when there was no practical necessity for so doing and when liberalizing action might confront the Board with numerous difficult problems. He also suggested that any move which encouraged member banks to hold a larger proportion of their portfolios in municipal obligations might have a bearing on the effective execution of System open market policy, since that policy is carried out through the purchase and sale of United States Government securities.

During further discussion, Governor Vardaman said he recognized that the problem was not a significant one at the present time. However, from the standpoint of interpreting Regulation A over a period of time, he felt the question was one which should be studied. He suggested,

therefore, that the Board's staff be asked to look into the matter in more detail and make a recommendation as to whether there was sufficient reason to seek the views of the Federal Reserve Banks before coming to a final determination.

At the conclusion of the discussion, it was understood that the procedure suggested by Governor Vardaman would be followed.

President Erickson also had written the Board under date of January 27, 1956, regarding the eligibility for discount under section 13 of the Federal Reserve Act of (1) participation certificates representing equitable interests in promissory notes and (2) notes representing a member bank's share in a participated loan. A suggested reply, reading as follows, had been drafted and circulated to the members of the Board:

This refers to your letter of January 27, 1956, regarding the eligibility for discount of (1) participation certificates representing equitable interests in promissory notes and (2) notes representing a member bank's share in a participated loan.

With respect to certificates evidencing an equitable interest in a promissory note, the Board has not changed the position indicated in the 1917 ruling referred to in your letter (1917 Bulletin 949) that such a participation certificate is not eligible for discount, even though the promissory note itself would otherwise be eligible. Such a certificate would not be the obligation of the person originally borrowing for commercial or agricultural purposes and would not be in the form of a note. While the Board has authority to regulate and to define the character of paper eligible for discount, it does not believe that certificates of interest ordinarily should be eligible for discount or as collateral for advances.

On the other hand, an instrument in the form of a promissory note rather than a certificate of interest in a note, which represents a member bank's proportionate share of a loan made by several participating banks to the same borrower would be eligible for discount under the law and the Board's Regulation A provided the note is otherwise eligible for discount.

At the request of Governor Vardaman, Mr. Hackley reviewed the questions raised by the Federal Reserve Bank of Boston from a legal and historical standpoint and stated that the proposed draft of reply was believed to be consistent with views heretofore expressed by the Board. He noted that in 1949 the Board amended Regulation A specifically to authorize certificates of interest in pools of Commodity Credit Corporation notes to be used as collateral for advances to member banks, although they were not made eligible for discount. That case, he said, involved a special situation and it appeared that certificates of interest ordinarily should not be eligible either for discount or as collateral for advances.

Following a discussion based on Mr. Hackley's comments, the draft of letter to President Erickson was approved unanimously.

Messrs. Hackley and Myrick then withdrew from the meeting.

There had been circulated to the members of the Board a draft of letter to the Commerce Union Bank, Nashville, Tennessee, which would approve the establishment of a branch by that bank at 4405 Harding Road in Davidson County, provided the capital of the bank was increased by the

prior sale of $500,000 par value of new common stock and the branch was established within six months from the date of the letter. When the file was in circulation to the members of the Board, Governor Vardaman indicated that when the matter came before the Board he would like to have a discussion of the bank's management policies, asset condition, and capital position.

Pursuant to Governor Vardaman's request, Mr. Sloan reviewed the condition of the Commerce Union Bank, drawing for the most part upon material contained in a memorandum from the Division of Examinations dated February 3, 1956, which had been circulated to the members of the Board along with the draft of proposed letter to the bank. He stated, in conclusion, that the sale of $500,000 par value of new common stock would be sufficient in the opinion of the Division of Examinations to place the bank in a reasonably satisfactory capital position.

Governor Robertson pointed out that in a letter to the Federal Reserve Bank of Atlanta dated February 9, 1956, the president of Commerce Union Bank advised that plans were being completed to sell $500,000 par value of new common stock not later than July 1, 1956. After indicating that he concurred in Mr. Sloan's analysis of the bank's condition, he expressed the view that in all the circumstances the Board would be justified in deviating from its customary procedure with respect to the approval of branches for State member banks and basing its approval of the proposed branch of the Commerce Union Bank on the prior sale of new common stock.

Thereupon, the following letter to the Board of Directors of Commerce Union Bank, Nashville, Tennessee, was approved unanimously, for transmittal through the Federal Reserve Bank of Atlanta:

Pursuant to your request submitted through the Federal Reserve Bank of Atlanta, the Board of Governors of the Federal Reserve System approves the establishment of a branch by Commerce Union Bank, Nashville, Tennessee, at 4405 Harding Road in Davidson County approximately one-half mile outside the southwest limits of the city of Nashville, provided the capital of such bank is increased by the prior sale of $500,000 par value of new common stock and the branch is established within six months from the date of this letter.

At this point Messrs. Solomon and Shay, Assistant General Counsel, entered the room.

Reference was made to the following draft of letter to Mr. Harry Heller, Assistant Director, Division of Corporation Finance, Securities and Exchange Commission, Washington, D. C., which had been circulated to the members of the Board:

This refers to your letter of February 10, 1956, concerning the registration statement filed with your Commission on February 6, 1956, by First Bank Stock Corporation, and requesting comments relative to the prospectus.

First Bank Stock Corporation's annual report to the Board for 1955 has not been received; therefore, we are not in a position to comment on the information pertaining to the corporation for the year 1955 or as at that year end. Information in the prospectus pertaining to the corporation for years prior to 1955 has been checked with information in our files and no misstatements or misleading statements were noted.

In addition no erroneous statements appear to have been made in that section of the prospectus treating with the subject of supervision and regulation.

During a discussion of the matter, Governor Balderston, who had raised for consideration a possible editorial change in the letter, indicated that he would be agreeable to the letter as drafted in view of an explanation which was offered by Mr. Thompson.

At the conclusion of the discussion, the letter was approved unanimously.

In accordance with the understanding at the meeting on February 16, 1956, there had been sent to the members of the Board copies of:

A memorandum from the staff dated February 16, 1956, reviewing the history of and reasons for the treatment of convertible bonds and debentures under Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, including the possibility of relaxing the requirements applicable to such bonds and debentures at brokerage offices or tightening the requirements applicable at banks. The memorandum recommended that a possible amendment to Regulation U be submitted to the Federal Reserve Banks for their comments and those of interested persons in their districts. The amendment would provide that when a debenture is converted into a registered stock, the total credit -- including credit advanced to buy the debenture and not merely the extra amount to finance the conversion -- would then be considered subject to the regulation, and the borrower would have to "bring up" the margin on the total credit to the standard requirements. It also recommended that a possible amendment to strengthen the provisions regarding the "statement of purpose" be submitted to the Reserve Banks for comments. A draft of the amendments and a draft of letter to the Federal Reserve Banks were submitted with the memorandum. Also submitted were memoranda on the use of convertible debentures which had been received from the American Telephone and Telegraph Company.

A memorandum dated February 16, 1956, from Governor Szymczak concurring in the staff recommendation.

A memorandum submitted to Mr. Young under date of February 10, 1956, by Mr. Brill, Chief, Business Finance and Capital Markets Section, and Miss Stockwell, Economist, Division of Research and Statistics, discussing the steps involved in the flotation and subsequent conversion of American Telephone and Telegraph Company debentures, especially as regards the use of credit.

The matter was discussed from the standpoint of a question which had been raised as to whether the proposed amendments should be submitted informally by the staff to the American Telephone and Telegraph Company for the purpose of ascertaining what effect the amendments would have on the company's financing. Governor Szymczak recommended such a procedure and suggested that the views of the New York Stock Exchange also be obtained through the Federal Reserve Bank of New York.

At the conclusion of the discussion, it was agreed unanimously that the suggested procedure should be followed and that on the basis of the comments received from the American Telephone and Telegraph Company and the New York Stock Exchange, the Board would determine whether the proposed amendments should be sent to all of the Federal Reserve Banks for review.

During the foregoing discussion Mr. Sherman, Assistant Secretary, entered the room. At its conclusion Messrs. Solomon and Shay withdrew, Mr. Hackley returned to the room, and Mr. Cherry, Legislative Counsel, joined the meeting.

In accordance with the discussion at the meeting on February 10, 1956, concerning topics which had been suggested by the Federal Advisory Council for discussion at its meeting with the Board on February 21, there had been sent to the members of the Board copies of the statements on proposed bank merger legislation made by Chairman Martin on June 13, 1955, and by Governor Robertson on July 6, 1955, before the Antitrust Subcommittee of the House Committee on the Judiciary. The memorandum pointed out that on February 6, 1956, the House passed H. R. 5948, the bank merger bill introduced by Representative Celler, and that the bill had been referred to the Senate Committee on the Judiciary.

There had also been sent to the members of the Board copies of a memorandum from Mr. Vest dated February 16, 1956, concerning a meeting (attended by Messrs. Vest and Hackley) at the Office of the Comptroller of the Currency on that day for the purpose of determining whether it would be possible for the three Federal bank supervisory agencies to agree on some legislation in the general field of bank mergers. After summarizing the difference between the position of the Board and that of the Comptroller of the Currency and the Federal Deposit Insurance Corporation with respect to H. R. 5948, the memorandum discussed the provisions of H. R. 2115, which was introduced by Representative Celler in January 1955 and referred to the Committee on Banking and Currency. The memorandum indicated that the best possibility of reaching an agreement among the

three agencies appeared to lie in an approach such as that contained in H. R. 2115, which would amend section 18(c) of the Federal Deposit Insurance Act rather than section 7 of the Clayton Act.

At the request of the Board, Mr. Vest reviewed the principal provisions of H. R. 5948 and H. R. 2115, summarized the positions of the Federal bank supervisory agencies with respect to H. R. 5948, and stated that in his opinion it would not be inconsistent for the Board to join the other bank supervisory agencies in supporting the principal provisions of H. R. 2115 while at the same time maintaining the position which it previously expressed with regard to H. R. 5948. One question, he said, would be whether the Congress would feel that H. R. 2115 went far enough in dealing with bank mergers or whether it would also desire an amendment of section 7 of the Clayton Act, perhaps along the lines of H. R. 5948.

Governor Robertson then made a statement in which he brought out that H. R. 2115 was almost identical with a draft of bill which the Board sent to Representative Celler in 1952. He felt that it would not be inconsistent for the Board to join the other agencies in support of such a bill and still maintain its position with regard to H. R. 5948. He went on to say that although the Board might not agree with H. R. 5948 as passed by the House, the Board in his opinion should avoid taking the position that the Department of Justice should not have any jurisdiction in the event of a bank merger or consolidation if it wanted to attempt

to enjoin the action on the grounds that the action would unduly lessen competition or unduly tend to create a monopoly. In the circumstances, it was his recommendation that the Board go along with an approach like that of H. R. 2115 and, if its views were requested by the Congress, express opposition to H. R. 5948 in its present form but state that it would have no objection to the Clayton Act being amended to govern bank mergers and consolidations, provided such amendment did not vest in the Board the responsibility of enforcement.

There followed a lengthy discussion of the effects of H. R. 2115 and H. R. 5948 and of the question whether any inconsistency could be charged in an approach such as Governor Robertson had outlined. It was suggested that for purposes of clarification, the Legal Division be requested to draft a memorandum for the Board's use. The suggestion also was made that the Board's position be expressed in writing to the other Federal bank supervisory agencies rather than orally, so that there might be no possibility of a misunderstanding.

At the conclusion of the discussion, it was agreed that the suggested memorandum and draft of letter should be prepared for the Board's consideration.

The discussion then turned to the meeting with the Federal Advisory Council tomorrow, and to the question of what would be said with respect to bank merger legislation.

After various views had been expressed, it was suggested that Governor Robertson outline the background of the matter, that reference be made to the testimony last year by Chairman Martin and Governor Robertson, that the Council be advised that the Board continued to hold the same position as expressed in the testimony, that the views of the Council be requested, and that if the Council was critical of the Board's position, the statement be made that the Board was glad to have the views of the Council and would give consideration to them.

There was unanimous agreement with the suggested procedure.

Messrs. Riefler, Thomas, Young, Hackley, and Cherry then withdrew.

There had been circulated to the members of the Board a letter dated February 3, 1956, from Deputy Comptroller of the Currency Jennings to Governor Robertson enclosing a copy of a letter from Mr. Jennings to the First National Bank of Arizona, Phoenix, Arizona, regarding the proposed merger of the First National Bank of Holbrook, Arizona, into the Phoenix institution. The letter to the bank stated that tentative approval of the proposed merger could not be given at the present time and that this position was taken at the recommendation of the Board of Governors in view of the study being made of the competitive situation among banks in Arizona.

Governor Vardaman, who had asked that the matter be discussed at a meeting of the Board, expressed the view that the tone of the letter to

the First National Bank of Arizona was such as to indicate that the Comptroller's Office would be agreeable to approving the proposed merger if it were not for the position taken by the Board of Governors.

In response, Governor Robertson said that the Comptroller's Office agreed with the Board's position, that it would not hesitate to so inform the national bank, and that the letter was not intended to give a different impression.

The members of the staff then withdrew and the Board went into executive session.

The Secretary later was informed by the Chairman that during the executive session Governor Robertson reported the issuance by the Office of Defense Mobilization under date of February 15, 1956, of a Defense Mobilization Order assigning certain responsibilities to the Board of Governors in the event of a national emergency. The Order took into account suggestions transmitted with the Board's letter of January 10, 1956, to the Director of Defense Mobilization; and copies of the Order and correspondence between the Board and the Office of Defense Mobilization had been sent to the Federal Reserve Banks.

The Secretary was informed that in accordance with the discussion at the meeting on January 9, 1956, regarding staff requirements for defense planning purposes, Governor Robertson was authorized, in consultation with Governor Balderston, to approve on behalf of the Board the appointment of the necessary staff to carry out the administration of

the Defense Mobilization Order, it being understood that at the time any appointments were approved under this authority, such approval would be entered in the minutes of the Board.

The Secretary also was informed that during the executive session the Board approved the appointments of Mr. Oliver S. Powell as President and Mr. A. W. Mills as First Vice President of the Federal Reserve Bank of Minneapolis, each for a five year term beginning March 1, 1956, and the payment of salaries to Messrs. Powell and Mills at the rates fixed by the Board of Directors, namely, $30,000 and $22,000 per annum, respectively, for the period from March 1, 1956, to December 31, 1956.

The meeting then adjourned.

Secretary