

Minutes for March 13, 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 <u>M</u>	_____
Gov. Szymczak	X <u>M</u>	_____
Gov. Vardaman	X <u>(W)</u>	_____
Gov. Mills	X <u>J</u>	_____
Gov. Robertson	X <u>R</u>	_____
Gov. Balderston	X <u>CCB</u>	_____
Gov. Shepardson	X <u>less</u>	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, March 13, 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. Shepardson

Mr. Sherman, Assistant Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Thurston, Assistant to the Board  
 Mr. Riefler, Assistant to the Chairman  
 Mr. Thomas, Economic Adviser to the Board  
 Mr. Bethea, Director, Division of Administrative Services  
 Mr. Vest, General Counsel  
 Mr. Young, Director, Division of Research and Statistics  
 Mr. Sloan, Director, Division of Examinations  
 Mr. Solomon, Assistant General Counsel  
 Mr. Hexter, Assistant General Counsel  
 Mr. Goodman, Assistant Director, 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:

Memorandum dated February 17, 1956, from Mr. Johnson, Director, Division of Personnel Administration, recommending that the basic annual salary of M. Callie Wickline, Nurse in that Division, be increased from \$4,615 to \$4,750.

Approved unanimously, effective March 13, 1956, with the understanding, pursuant to a request by Governor Vardaman, that the Board would consider at an appropriate time in executive session the procedure currently followed with respect to longevity increases for members of the staff.

3/13/56

-2-

Memorandum dated March 5, 1956, from Mr. Molony as President of the F.R.B. Federal Credit Union recommending that the Board approve, as an outside business activity, service by Davis H. Wilson, Chief of the Machine Tabulation and Telegraph Section in the Division of Administrative Services, and Eugene C. Harrison, Clerk in the Legal Division, as Treasurer and Clerk-Teller of the Credit Union, respectively.

Approved unanimously.

Letter to Mr. Brawner, Federal Reserve Agent, Federal Reserve Bank of San Francisco, reading as follows:

In accordance with the request contained in your letter of March 2, 1956, the Board of Governors approves the appointment of Mr. Frank J. Reff as Federal Reserve Agent's Representative at the Seattle Branch, to succeed Mr. Paul W. Cavan.

This approval is given with the understanding that Mr. Reff will be placed upon the Federal Reserve Agent's payroll and will be solely responsible to him or, during a vacancy in the office of the Federal Reserve Agent, to the Assistant Federal Reserve Agent, and to the Board of Governors, for the proper performance of his duties. When not engaged in the performance of his duties as Federal Reserve Agent's Representative he may, with the approval of the Federal Reserve Agent or, in his absence, of the Assistant Federal Reserve Agent, and the Vice President in charge of the Seattle Branch, perform such work for the Branch as will not be inconsistent with his duties as Federal Reserve Agent's Representative.

It is noted from your letter that, upon approval of Mr. Reff's appointment, his Oath of Office will be forwarded to the Board of Governors together with advice of the effective date of the appointment.

Approved unanimously.

Letters to Mr. Morrill, Vice President, Federal Reserve Bank of San Francisco, reading as follows:

In accordance with the request contained in your letter of March 5, 1956, the Board approves the designation of J. H. McConnell as a special assistant examiner for the Federal Reserve Bank of San Francisco for the purpose of participating in the examinations of State member banks only.

3/13/56

-3-

The authorization heretofore given your Bank to designate J. H. McConnell as a special assistant examiner is hereby cancelled.

---

In accordance with the request contained in your letter of March 2, 1956, the Board approves the appointment of David F. Scott as an assistant examiner for the Federal Reserve Bank of San Francisco. Please advise as to the date upon which the appointment is made effective.

Approved unanimously.

Letter to Mr. R. M. Osvold, Assistant Cashier, The United States National Bank, Portland, Oregon, reading as follows:

This refers to your letter of February 28, 1956, concerning the maximum permissible rate of interest payable by a member bank under Regulation Q on each of two "time deposits, open account" with alternate maturities or withdrawal provisions, where the depositor elects to make a partial withdrawal pursuant to one of the alternatives.

Your letter illustrated the matter of interest to you by the following examples:

"1. An agreement for Time Deposit Open Account requires 90 day written withdrawal notice, with interest at the rate of 2% per annum on balances remaining on deposit one year or longer. During the first year, it permits withdrawals on 30 day notice, interest on amounts so withdrawn to be paid at the rate of 1% per annum from date of acceptance of notice to date of withdrawal.

"Six months after opening, a withdrawal notice is accepted, maturing part of the balance 30 days later. On the part so withdrawn, may the bank pay interest for six months (from date of deposit to acceptance of notice) at 2%; the reduction to 1% being applied only for the final 30 days (from date of notice acceptance to date of withdrawal)?

3/13/56

-4-

"2. The agreement has a fixed maturity of one year, with interest at the rate of 2%. Depositor however has option to withdraw all or part at an earlier date on 30 days notice, interest on the amount withdrawn to be at the rate of 1% from date of acceptance of notice to date of withdrawal.

"Six months after opening, notice is accepted maturing part of the balance 30 days later. On the part so withdrawn, may the bank pay interest for six months at 2%; the reduction to 1% being applied only for the final 30 days to date of withdrawal?"

You indicated that you are familiar with the Board's interpretation (1953 Federal Reserve Bulletin 1050) which discusses a "time deposit, open account" with alternate maturities or withdrawal provisions. In that interpretation the Board held that the maximum permissible rate of interest payable on such a deposit "would depend upon which of the alternate withdrawal privileges is elected by the depositor and the rate applicable under the regulation in the circumstances of the withdrawal privilege so elected."

On the basis of the interpretation just referred to, both of your questions must be answered in the negative. On the part withdrawn in each example the bank could not pay interest in excess of one per cent per annum from the date of deposit to the date of withdrawal. This is true because, under the regulation, the maximum permissible rate of interest payable in the event of a withdrawal pursuant to advance written notice of 30 days is one per cent; and since the depositor in each of the examples elected to withdraw part of the deposit pursuant to the 30 days' notice option in the deposit contract, the one per cent maximum rate would be the one applicable under the regulation to the partial withdrawal, regardless of the fact that the part withdrawn may have been held by the bank for 90 days or more.

Should you have any further questions concerning the application of the regulation, it is suggested that you might find it more convenient to contact the Federal Reserve Bank of San Francisco which will be glad to assist you.

Approved unanimously, with  
a copy to the Federal Reserve Bank  
of San Francisco.

3/13/56

-5-

Reference was made to a memorandum from Mr. Bethea to Governor Balderston dated March 8, 1956, copies of which had been sent to the members of the Board, setting forth reasons why it would appear advantageous to dispose of the Board's 1947 Cadillac Limousine.

In discussing the matter, Governor Balderston stated that the two automobiles leased pursuant to previous action by the Board were now available and that in accordance with the understanding at the time the leasing arrangements were agreed upon, plans were being made to dispose of the Board's 1950 Pontiac Sedan. For the reasons mentioned in Mr. Bethea's memorandum, he felt that it would also be desirable to dispose of the 1947 Cadillac Limousine. He explained that the customary procedure of exhibiting the automobiles to several dealers would be followed.

Following a brief discussion, disposition of the 1947 Cadillac Limousine was authorized by unanimous vote.

Mr. Bethea then withdrew from the meeting.

Pursuant to the understanding at the meeting yesterday, there had been sent to the members of the Board copies of an alternative draft of letter to The Continental Bank and Trust Company, Salt Lake City, Utah, which would take the form of a relatively brief communication from the Board to the member bank. There had also been distributed copies of a telegram which would be sent to Mr. Mangels, President of the Federal

3/13/56

-6-

Reserve Bank of San Francisco, quoting the letter to the member bank and suggesting a reply which the Reserve Bank might make to the letter received from the president of the member bank under date of February 15, 1956.

Governor Vardaman stated that he favored the alternative draft, since he felt that it indicated confidence in the strength of the case for an increase in the member bank's capital structure, treated the matter as a business proposition, and had the advantage of dealing direct with the member bank.

Governor Mills said his personal preference would be for the longer letter which was discussed at yesterday's meeting. He believed it answered properly the questions raised in President Cosgriff's letter of February 15, whereas Mr. Cosgriff might challenge the shorter letter as not being responsive to his request for certain information. Whether a letter was sent to the member bank by the Board or by the Federal Reserve Bank of San Francisco seemed to him to be immaterial.

In response to a request for comment, Mr. Vest said that members of the Legal Division had discussed on several occasions the relative desirability of a short or long letter, that there was much to be said for either approach, and that his personal inclination was to favor a longer letter because it would answer Mr. Cosgriff's questions and might provide a better record if the case should go to court. He went on to

3/13/56

-7-

say that inasmuch as discussions with President Mangels had been on the basis of the longer letter, he called Mr. Mangels on the telephone and found that he would much prefer the alternative draft because he believed no useful purpose would be served by sending the longer letter. Mr. Vest said that Mr. Mangels also considered it desirable to send the letter direct from the Board to Mr. Cosgriff because, as he put it, it was the Board's affair. Mr. Vest concluded by saying that from a legal standpoint it did not make too much difference which letter was sent.

Governor Robertson expressed preference for the longer letter because he felt it represented a more clean-cut approach. However, he thought that the question was purely one of judgment and if full agreement on the part of all of the members of the Board could be obtained, he would have no objection to the other letter since in his opinion it would serve the purpose adequately.

Governor Mills indicated that he also would go along with the alternative draft if full agreement could be reached on it.

Governor Shepardson expressed preference for the shorter letter and for sending it direct to the member bank. He saw no purpose in developing at this time all of the information contained in the longer letter and felt that the alternative draft might avoid arguments which it was preferable to avoid at this stage. In addition, the alternative draft seemed to be more in line with the thinking of the San Francisco Reserve Bank.

3/13/56

-8-

Following a statement by Governor Balderston that he favored the shorter letter for the reasons outlined by Governor Shepardson, Governor Szymczak said that despite his personal preference for the longer letter it seemed important to give consideration to the views of the San Francisco Reserve Bank and he would therefore go along with the alternative draft.

In a further discussion Governor Vardaman reiterated his view that outside counsel should be retained. He suggested that the Board's Counsel be requested to consider the matter and discuss it with the Board at the proper time.

In accordance with Governor Vardaman's suggestion, Chairman Martin requested Mr. Vest to give consideration to this phase of the matter.

Thereupon, unanimous approval was given to a letter to Mr. Walter E. Cosgriff, President, The Continental Bank and Trust Company, Salt Lake City, Utah, reading as follows, with the understanding that the letter would be sent by air mail and that a telegram would be sent to President Mangels of the San Francisco Reserve Bank quoting the letter to Mr. Cosgriff and suggesting that the Bank reply to Mr. Cosgriff's letter of February 15 by stating that it understood the Board was replying to him direct and that the Reserve Bank would be willing to discuss the matter at Salt Lake City, either with the stockholders or the directors of the member bank:

A copy of your letter of February 15, 1956, to the Federal Reserve Bank of San Francisco regarding the capital structure of your institution has been sent to the Board of Governors and the Board has requested me to respond as follows:

3/13/56

-9-

In a letter from the President of the Federal Reserve Bank of San Francisco to your board of directors dated February 10, 1956, you were advised that in the Board's opinion the capital structure of your bank is inadequate and should be strengthened by the sale of common stock for cash to provide not less than \$1,500,000 additional capital funds. This matter has been the subject of previous discussions and correspondence between representatives of the Federal Reserve Bank of San Francisco and your bank, in which the need for additional capital has been repeatedly emphasized. Within the 60-day period mentioned in the Reserve Bank's letter of February 10, the Board of Governors or its representatives would be glad to discuss this matter further with your board of directors and we are sure that the Federal Reserve Bank of San Francisco would be willing to discuss the matter at Salt Lake City either with the stockholders or the directors of your institution if you should so request.

With respect to your inquiries regarding the procedures to be followed in effecting an increase in capitalization and the sanctions available to the Board if deemed necessary, it is presumed that your bank will consult its counsel.

The following draft of letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., had been circulated to the members of the Board prior to this meeting:

Reference is made to a letter from your office dated November 30, 1955, enclosing photostatic copies of an application to organize a national bank in the vicinity of the intersection of Southwest 8th Street and Southwest 27th Avenue, Miami, Florida, and requesting a recommendation as to whether or not the application should be approved. It appears that the location of the proposed bank has been changed to the vicinity of Southwest 20th Avenue and Southwest 8th Street.

Information contained in a report of investigation of the application made by an examiner for the Federal Reserve Bank of Atlanta indicates that the proposed capital structure of the bank would be adequate. The prospects for earnings

3/13/56

-10-

of the institution are only fair and the general character of the management is not regarded favorably because of the lack of banking experience among the members of the board of directors and the fact that arrangements have not been made for satisfactory operating management. It appears that considerable doubt exists with respect to the need for an additional banking facility in the area and that a competing application for a State bank charter is pending. In the circumstances, the Board of Governors does not feel justified in recommending approval of the application.

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

Governor Vardaman, who indicated when the file was in circulation that he had a question on the matter, stated that his question did not concern the proposed letter to the Comptroller of the Currency. In view of certain statements contained in the report of investigation submitted by the Federal Reserve Bank of Atlanta, he requested that the content of the Atlanta Bank's reports be discussed by the Board in executive session.

Thereupon, the letter to the Comptroller of the Currency was approved unanimously, with the understanding that a copy would be sent to the Federal Reserve Bank of Atlanta and that the matter mentioned by Governor Vardaman would be discussed in executive session.

Mr. Thurston then withdrew from the meeting.

There had been circulated to the members of the Board prior to this meeting a draft of letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, reading as follows:

3/13/56

-11-

This is in response to your letter of February 10 requesting the Board's views regarding a draft of a bill, presented by the Treasury Department, "To amend section 24 of the Federal Reserve Act with respect to leasehold and construction loans which may be made by national banks".

According to the proposed letter from the Secretary of the Treasury to the Speaker of the House of Representatives, under present law the authority of national banks to make loans on leaseholds is so limited as to be of little benefit either to national banks or to prospective borrowers. One purpose of the proposed legislation is to broaden this authority by permitting national banks to make loans secured by leasehold interests in cases where the leases will run at least 10 years beyond the maturity dates of the loans. (It is presumed that the regulations of the Comptroller of the Currency governing the valuation of leasehold security would be amended so as to assure adequate protection in the case of loans secured by relatively short-term leaseholds.)

The draft bill would also expand the ability of national banks to make loans to finance the construction of industrial and commercial buildings. Such loans would be regarded as ordinary commercial loans and not as real estate loans even though secured by a mortgage or other lien upon real estate, provided they were to mature in not more than 18 months and there was in each case a binding agreement on the part of a financially responsible lender to finance the full amount of the bank's loan upon completion of the building. The Treasury states that this change would permit national banks to make safe and desirable loans that they are now unable to make, and would enable them to better compete with State banks in the financing of the construction of industrial and commercial facilities.

Under section 24 of the Federal Reserve Act in its present form, the aggregate amount of so-called "construction loans" held by a national bank may not exceed 50% of its capital stock. The proposed bill would increase this aggregate limitation to 50% of the bank's capital stock and surplus.

The Board of Governors sees no objection to the three foregoing proposals.

3/13/56

-12-

The Board suggests that consideration be given to whether it would be advisable to amend section 24 to require construction loans to be secured by first liens on the real estate involved. Even though national banks' losses in this field heretofore have been insignificant, the construction loan provisions of section 24 have not yet encountered the test of a major depression, and it is believed that the element of hazard necessarily present in construction loans may call for security of the nature described.

Following a statement by Governor Robertson that the problems with which the draft of bill was concerned were substantial and that he considered the proposed letter to the Budget Bureau a proper expression of the views which should be stated, the letter was approved unanimously.

Mr. Hexter then withdrew from the meeting and Messrs. Marget, Director, and Tamagna, Chief, Financial Operations and Policy Section, Division of International Finance, entered the room.

Consideration was given to a memorandum from Mr. Solomon, Assistant General Counsel, dated March 9, 1956, copies of which had been sent to the members of the Board, concerning developments in connection with the proposal which would authorize the Board to enlarge the powers of foreign branches of national banks. It pointed out that a suggested draft of amendment to section 25 of the Federal Reserve Act and an explanatory memorandum had been sent to the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Reserve Banks, and the Federal Advisory Council. The Comptroller favored such legislation, the Federal

3/13/56

-13-

Deposit Insurance Corporation had not yet submitted comments, the Presidents of the Federal Reserve Banks who submitted comments following the meeting of the Board and the Presidents on January 25, 1956, either favored the proposed amendment strongly or expressed general sympathy with the proposal, and the Federal Advisory Council, at its meeting with the Board on February 21, 1956, expressed the view that the proposed amendment had merit but that a thorough study of the implications was desirable. Because of the Council's view that the amendment should provide assurance against foreign branches of American banks being permitted to engage in practices such as investment banking and manufacturing, there was attached to Mr. Solomon's memorandum a draft of bill containing an amendment to the original draft designed to meet the Council's objection.

In reviewing the matter, Mr. Solomon stated that he had discussed the amended draft of bill with Mr. Clarke, Assistant General Counsel of the Federal Reserve Bank of New York, who suggested certain changes in language. He then distributed copies of a draft incorporating Mr. Clarke's suggestions and stated that he considered them appropriate.

Following a discussion during which minor changes in the amended draft of bill were proposed, the question was raised whether the amended draft should be resubmitted to the Federal Advisory Council, the other Federal bank supervisory agencies, and the Federal Reserve Banks.

One view, expressed by Governor Mills, was that the Board should submit to the Congress a draft of bill in the form originally proposed,

3/13/56

-14-

the thought being that the Board could act administratively to make such interpretations of the statute as might be required and that it would be unnecessary to incorporate in the statute specific language to cover the comments of the Federal Advisory Council. Governor Mills suggested that if members of the banking fraternity felt strongly on this point, they would have an opportunity to present their views when hearings on the proposed legislation were held by the appropriate Congressional committees.

Another view, expressed by Governor Robertson, was that the restrictions provided by the amended draft of bill were not unduly severe, it would not be desirable for foreign branches of commercial banks to go into the fields in question because that would be inconsistent with the stated policy of Congress concerning the domestic activities of commercial banks, the limitations now devised appeared to meet the suggestions of the Federal Advisory Council, and it would not be desirable to have the banking fraternity oppose the bill in the course of hearings before Congressional committees.

Since the majority of the Board agreed with the position taken by Governor Robertson, the discussion reverted to the procedural question. Inasmuch as the amended draft seemed to meet substantially the views expressed by the Federal Advisory Council, there was some feeling that it would be unnecessary to request the Council's views again, a procedure

3/13/56

-15-

which might unduly delay submitting the proposed legislation to the Congress. On the other hand, it was suggested that the maintenance of good relations with the Council should be kept in mind.

The suggestion was made, as a compromise, that a letter be sent to the Council which would indicate that the amendment of the draft of bill was intended to meet the Council's comments, that the letter be worded in such a way as not to preclude the submission of further views, but that the letter indicate rather clearly the Board's intention to submit the proposal to the Congress in its present form. It was also suggested that the letter fix a date in the relatively near future for receipt of any further comments that the Council might care to offer.

At the conclusion of the discussion, it was agreed to proceed in the manner suggested, Governor Mills voting "no" because of his preference for legislation in the form of the original draft of bill.

Secretary's Note: Pursuant to this action, the following letter was sent to Mr. William J. Korsvik, Acting Secretary of the Federal Advisory Council, on March 14, 1956, with a copy to Mr. Robert V. Fleming, President of the Council:

You will recall that the proposed amendment to section 25 of the Federal Reserve Act to improve the competitive position of national bank branches in foreign countries was discussed at the Joint Meeting of the Board and the Federal Advisory Council on February 21, 1956.

The Board has given further consideration to this matter and has had prepared a new draft amendment, in the form attached, to carry out the suggestion of the Council that

3/13/56

-16-

the amendment should provide assurance that foreign branches of American banks would not be permitted to engage in practices such as investment banking and manufacturing.

In view of the desirability of early presentation of this proposal to the Congress, if there should be any further comments or suggestions on the draft, it would be helpful if they could be received not later than April 6, 1956.

---

D R A F T

A BILL

To improve the competitive position of national bank branches in foreign countries.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the last paragraph of section 25 of the Federal Reserve Act, as amended (U.S.C., Title 12, sec. 604) is amended by adding the following sentence at the end thereof:

"Regulations issued by the Board of Governors of the Federal Reserve System under this section, in addition to regulating powers which a foreign branch may exercise under other provisions of law, may authorize such a foreign branch, subject to such conditions and requirements as such regulations may prescribe, to exercise such further powers as may be usual in connection with the transaction of the business of banking in the places where such foreign branch shall transact business. SUCH REGULATIONS SHALL NOT AUTHORIZE A FOREIGN BRANCH TO ENGAGE IN THE GENERAL BUSINESS OF PRODUCING, DISTRIBUTING, BUYING OR SELLING GOODS, WARES, OR MERCHANDISE; NOR, EXCEPT TO SUCH LIMITED EXTENT AS THE BOARD MAY DEEM TO BE NECESSARY WITH RESPECT TO SECURITIES ISSUED BY ANY "FOREIGN STATE" AS DEFINED IN SECTION 25(b) OF THIS ACT, SHALL SUCH REGULATIONS AUTHORIZE A FOREIGN BRANCH TO ENGAGE OR PARTICIPATE, DIRECTLY OR INDIRECTLY, IN THE BUSINESS OF UNDERWRITING, SELLING, OR DISTRIBUTING SECURITIES."

Secretary's Note: CAPITALS show new sentence to assure that foreign

3/13/56

-17-

branches of American banks would not be permitted to engage in practices such as investment banking and manufacturing.

Consideration then was given to a memorandum from the Division of Examinations dated November 30, 1955, copies of which had been sent to the members of the Board, raising questions as to whether the policy adopted by the Board on July 18, 1950, with respect to the examination of foreign banking corporations and foreign branches of such corporations and member banks should be continued or modified.

Following a statement by Governor Szymczak in which he outlined the nature of the problem, Mr. Goodman reviewed the examining practices followed to date and mentioned developments, both actual and prospective, which made it seem advisable to review the existing policy. He referred particularly to the prospective need for additional manpower.

Governor Robertson then presented his views as follows: With respect to the examination of foreign branches of national banks, he felt the Board should assume that the Comptroller of the Currency would make examinations with such frequency as he deemed appropriate, and that the Board should take no action except to keep informed on what the Comptroller's Office was doing. As to Edge banks, agreement corporations, their branches, and branches of State member banks, he would follow the same examining policy in all categories except that the head offices of

3/13/56

-18-

the Edge banks would be examined more frequently pursuant to the legal requirement. He would not have any examinations made by the staff of the Board's Division of Examinations and would use personnel of the Federal Reserve Banks. However, persons from the Board's staff would go into the field often enough to keep abreast of foreign developments. He felt that the addition to the Board's staff of an examiner to assist Mr. Goodman (an action previously approved by the Board) was necessary and appropriate, since this would ease the burden of work and also provide a qualified understudy in the event Mr. Goodman was not available. The Division of Examinations should assure itself that the examinations were of a good quality and were made as frequently as needed. Steps should be taken promptly to enlist the cooperation of the Federal Reserve Banks, beginning with the Boston, New York, Dallas, and San Francisco Banks, in placing one or two of their examiners in foreign departments of large banks for several months so that these men might familiarize themselves with the activities of those departments and the terminology used. In arranging examinations, the Board should designate one man from a Federal Reserve Bank to be in charge of the group of examiners and arrange for men from other Federal Reserve Banks to participate. On some occasions, Mr. Goodman or his associate should go out to keep a hand in the examining work, but they would not be expected to actually undertake examinations.

3/13/56

-19-

Governor Szymczak suggested that the program proposed by Governor Robertson be discussed informally at the forthcoming Conference of Representatives of the Bank Examination Departments of the Federal Reserve Banks in order to explain to the Reserve Banks the nature of the proposal and the personnel requirements.

Governor Vardaman inquired whether the plan contemplated review of the examinations by the Board's Division of Examinations. When Governor Robertson replied in the affirmative, Governor Vardaman said that he favored the plan as outlined and felt it desirable to have the examinations made by persons other than those responsible for the review work.

In a further statement Governor Robertson said that his plan envisaged the appointment of examiners at the Reserve Banks as examiners for the Board for the purpose of making the examinations, as required by law, and that the Board would direct the scheduling of the examinations. In other words, the Reserve Banks would provide the trained personnel but the Board would indicate when the examinations were to be undertaken. This point, he said, also should be clarified at the forthcoming examiners' conference.

In response to a question whether the plan contemplated the training of examiners at all Federal Reserve Banks, Governor Robertson said that he had specified certain Banks because of their location in relation to the foreign branches to be examined. He saw no objection to training

3/13/56

-20-

personnel at each of the Reserve Banks to the extent considered necessary or desirable.

At the conclusion of the discussion, unanimous agreement was expressed with the policy outlined by Governor Robertson and it was understood that the matter would be discussed with the Reserve Bank representatives attending the forthcoming examiners' conference with a view to proceeding with steps necessary to put the program into operation.

During the foregoing discussion Mr. Young withdrew from the meeting and at its conclusion Mr. Thomas withdrew.

Further consideration was given to the proposed revision of the Board's Regulation K, Banking Corporations Authorized to Do Foreign Banking Business under the Terms of Section 25(a) of the Federal Reserve Act. The discussion was based on the latest draft of revised regulation (submitted to the Board with Mr. Solomon's memorandum of December 2, 1955) and a memorandum from Governor Szymczak dated January 11, 1956, in which he recommended that the December 2 draft, using the liberal alternatives A, C, E, G, I, and K, be published in the Federal Register for comments from interested persons. This recommendation contemplated that unless comments or developments indicated the desirability of some change, the regulation would in due course be officially adopted by the Board. Specific recommendations contained in Governor Szymczak's memorandum were as follows:

- (1) Allow Edge Corporations to receive in the United States deposits from foreign depositors even if to be held

3/13/56

-21-

for reserve or for working balance purposes, that is, inactive or idle deposits.

(2) Do not require that Edge Corporation acceptances or letters of credit in the United States be specifically related to a correspondent or shipper abroad.

(3) Permit Edge Corporations to finance in the United States certain transactions which immediately precede or follow actual export or import.

(4) Do not adopt the suggestion of Bank of America that Edge Corporations be allowed to act in the United States as paying agents for securities distributed in the United States.

(5) Do not accept the suggestion of Bank of America regarding the use of letters of credit issued by Edge Corporations in the United States for non-merchandise transactions, at least until the proposal is clarified.

(6) Grant the Board's consent in advance for Nonbanking Corporations to buy stocks abroad.

(7) Allow Nonbanking Corporations to underwrite securities abroad without further permission from the Board.

In an opening statement Governor Szymczak said that the purpose of his memorandum was to put something concrete before the Board for decision. As to the various alternatives, he recognized that arguments could be made on both sides quite effectively, particularly with regard to the purchase of stocks and underwriting of securities abroad, to which objection had been registered by the Comptroller of the Currency, and he had no strong conviction as to the direction in which the Board should proceed.

In response to a question by Chairman Martin, Governor Szymczak said that action along the lines of his recommendations would not be

3/13/56

-22-

fully in accord with the position of Mr. Henry C. Alexander since, as indicated at his meeting with the Board on January 19, 1956, Mr. Alexander took a very narrow view on what activities should be construed as incidental to the foreign or international business of Edge Act corporations. On the other hand, Governor Szymczak felt that most of the provisions recommended would be acceptable to Bank of America.

Governor Szymczak also pointed out that a number of questions with regard to the activities of Edge Act corporations had been pending before the Board for some time, that the Board might wish to go to Congress at some time in the future with a request for new legislation in this field, but that in the interim the questions which had been raised would have to be dealt with in some way.

Chairman Martin then made a statement in which he said that he had been trying to crystallize his thinking on this subject, that he had no strong views at the present time, but that, inasmuch as the matter had been under consideration for a long time and a great deal of work had been done by the System committees under the direction of Governor Szymczak, there would seem to be some merit in publishing a draft of regulation in the Federal Register to see what comments were obtained. Otherwise, he said, the effect would be to scrap all of the work that had been done over a period of almost two years without putting the recommendations to a direct test.

3/13/56

-23-

Governor Robertson said that although the studies by the System committees had served a very useful purpose in focusing attention on the problems in this field, they pointed up the fact that a very small number of institutions was affected. The regulation as now set up, he said, was designed to permit the Board to handle questions case by case, and the difficulty in the past was simply that the Board had not faced up to those questions. While the proposed revision was designed to set forth supposedly clear lines of authority within which the affected institutions could carry on their business, he felt that under such a regulation the Board would have just as many questions to consider as under the present regulation. It was his belief that the time was approaching when there would be a real need for clarifying legislation and perhaps a completely changed viewpoint about the financing of foreign business. In the circumstances, he suggested that the Board refrain from issuing a new regulation at this time, that it merely republish Regulation K, with such amendments as would have to be made to bring it up to date, and that it respond direct to Bank of America concerning the questions raised by the activities of that institution. He said that a memorandum and letter had been drafted spelling out these views in more detail and that he would be glad to have them distributed to the other members of the Board. He hoped that they would help to point up the way in which he felt the problem should be dealt with and that they would focus attention on the problems confronting the Board.

3/13/56

-24-

Governor Mills stated that his reasoning followed rather closely the views of Governor Robertson. He said that the whole field of foreign financing appeared to be in a period of development and that it contained many unknowns. There seemed to him to be no handicaps at present to the activities of commercial banks or Edge Act corporations of such proportions that they could not be handled on an ad hoc basis. Such being the case, he believed that the Board should suspend any action toward amending Regulation K for a period of at least 12 months, at the end of which time it could review developments in the foreign financing field to determine what would be a lasting, acceptable, and desirable revision of the regulation. While the main survey had now been completed and stood as a landmark, he had doubts about proceeding with a revision of Regulation K when one could look ahead to a time when the needs of the financial community could be appraised more easily. He went on to say that the study had been made principally at the initiative of the Board, with little apparent demand on the part of the affected parties, particularly for a broad revision of Regulation K.

Governor Vardaman said he agreed to a certain extent. He asked, however, what assurance there was that 12 months hence the Board would be in a better position to act than today. Because of this question, he was inclined to concur in Chairman Martin's view and to favor going ahead with publication of a proposed revision of the regulation to see what comments would be received.

3/13/56

-25-

Governor Mills then made a further statement in which he expressed the view that at the present time banks engaged in foreign trade financing are at a crossroads, trying to decide whether to go forward under the protection of the limited liability afforded by Edge Act operations or whether to operate through branches and expose their entire resources to the risks involved. He detected a feeling among bankers that there was some advantage in the limited liability but also an awareness that this would not relieve them of the moral obligations which must be lived up to in accepting deposits. Until this question was resolved by the bankers themselves, he felt that the Board would be making a mistake in forcing the issue.

Governor Robertson supplemented his earlier comments by saying that with the uncertainties prevailing at this time, he did not think the point had been reached where it would be wise for the Board to express itself in the form of a regulation, particularly since that regulation might have to be revised within a short period of time. He would much prefer to have the Board's position expressed by letter in the manner which he had suggested. In that way, he said, the Board could move faster, it would be in a better position to follow developments, and a year hence it would be in a better position to decide whether the positions taken today should be revised in the direction of liberalization or tightening.

3/13/56

-26-

Chairman Martin said that the views expressed seemed to indicate a common objective but different judgments as to the best way to proceed toward the goal. With regard to a point mentioned by Governor Mills, he expressed the belief that there might be more demand for action by the Board on Regulation K than was realized. He said that for a long time it had been expected in a number of quarters that there would be some approach toward a modification of Regulation K on the part of the Board. While he did not know how much those expectations had been built up, he believed that in many banking circles there had been a general anticipation that the move would be in the direction of liberalization.

Governor Vardaman said he did not see how the Board would be in a position to ask for new or liberalizing legislation unless the present regulation was revised and study then was continued over a period of, say, 12 months. After such study, he said, the Board would be in a position to know what it wanted to do. He did not regard the proposed amendments to Regulation K as perfect but saw them as a step in the right direction and at least worthy of a trial. Publication in the Federal Register, he pointed out, would not mean that the Board could not change its position. It would, however, provide the advantage of analytical study by everyone interested in the field of foreign financing.

Governor Szymczak recalled that at times in the past the Board had considered acting in this field but always decided to wait. He felt

3/13/56

-27-

the problems were particularly difficult to resolve because the Board was not in direct contact with them. He also said that the System committees had studied the subject at length and had given the Board their best thinking, which was embraced in the draft of regulation.

Governor Shepardson considered the point well made that the matter had been under study for a long time and that the Board should now present something in concrete form. Since Governor Szymczak's recommendations reflected the majority recommendations of the Neal committee, it was his view that a draft of revised regulation along the lines suggested in Governor Szymczak's memorandum should be published. He noted that if there were substantial objections, they would be developed through such publication.

Governor Balderston said he had some feeling that the proposed regulation was "a great deal of harness for a very small horse". However, he saw the virtue of making something available to the public which might serve as a guide to future planning by banking institutions. In general, therefore, he felt that what was proposed in Governor Szymczak's memorandum should be done; in other words, the proposed revision should be published in order to influence present thinking and future planning. However, he had questions on one point. Assuming it was a mistake to have permitted Bank of America to establish its head office in New York, would the Board be preventing a similar mistake in the future? More specifically, was a part of the regulation as now proposed the result of

3/13/56

-28-

the Board's decision with regard to Bank of America and, if not, would the Board be protecting the domestic banking structure in the future by the proposed regulation?

With respect to Governor Balderston's questions, Mr. Vest said he assumed that the situation referred to was in the minds of the Neal committee members and that no doubt some of the provisions found in the draft resulted from that situation. As far as particular cases were concerned, it seemed to him that the question must come up when there were applications for charters, with a statement therein as to where the principal place of business in the United States would be located. The Board would then have the right to approve or disapprove the application, or to say that the applicant must have its principal place of business at some other place than proposed. It was a matter, he said, against which it did not appear that the Board could regulate at this time.

Governor Robertson then stated that if it was the majority view that a proposed regulation should be published, he felt the Board should go over the provisions carefully, especially those points where there were differing views, as indicated in Governor Szymczak's memorandum.

Chairman Martin agreed and said that it also would be desirable for the members of the Board to have copies of the memorandum and draft of letter which Governor Robertson mentioned at an earlier stage of the discussion.

3/13/56

-29-

Governor Mills said that if the matter were put to a vote today he would have to vote against publication in the Federal Register because in his opinion such publication would provoke more problems than it would cure.

Chairman Martin then commented that the approach suggested by Governor Robertson was very much in his mind several months ago but that his thinking had swung in the opposite direction, partly because he felt that the other approach would be preferable from the standpoint of public relations. While there were numerous questions in this field on which he did not profess to have the answers, he thought many people in Government and in private business were awaiting the issuance of a revised Regulation K. If this were true, the widest possible dissemination of the Board's position would seem to have merit.

Governor Mills stated that Chairman Martin had touched on a problem which would be created by publishing a draft of revised regulation; that is, that the Board's thinking would be exposed to comment on the part of everyone interested in the subject of foreign financing. Through such action, he felt, the Board would have moved a long way down the road toward adoption of a revised regulation because it would in effect have indicated that the published draft was the position of the Board. He feared that the proposed version of the regulation did not represent views of the Board which were sufficiently firm to warrant the risk of taking a position publicly.

3/13/56

-30-

Chairman Martin responded that the question of the best way to proceed was a matter of judgment. The work done to date could be scrapped in entirety, but there would seem to be some merit in going ahead and publication in the Federal Register appeared to him to be one way of bringing toward a conclusion something that had caused trouble over a long period.

It was then agreed to continue the discussion tomorrow, giving first consideration to the alternatives discussed in Governor Szymczak's memorandum. It was also understood that copies of the memorandum and draft of letter referred to by Governor Robertson would be sent to all of the members of the Board.

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

The Secretary's Office later was advised that during the executive session the Board authorized Governor Robertson to proceed abroad later this year to attend the annual general meeting of the Bank for International Settlements at Basle, Switzerland, and to visit European central banks.

The Secretary's Office also was advised that during the executive session Governor Balderston reported on the need for additional space to house the Board's activities and on the steps being taken to explore rental, acquisition, or construction of additional facilities. In this connection, he reported having requested Mr. Bethea, Director of the Division of Administrative Services, to explore the

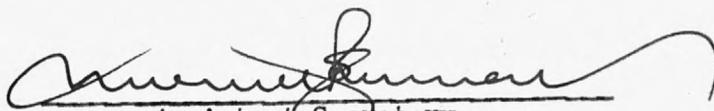
3/13/56

-31-

space problem with Mr. Persina, Consulting Architect to the Board, and with Mr. Wm. H. Livingston, of Philadelphia, Pennsylvania.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum dated March 12, 1956, from Mr. Carpenter, Secretary of the Board, Governor Balderston today approved on behalf of the Board the appointment of Edythe J. Pascom as Records Clerk in the Office of the Secretary, with basic salary at the rate of \$3,415 per annum, effective as of the date she assumes her duties.



Assistant Secretary