

To: \_\_\_\_\_  
From: \_\_\_\_\_

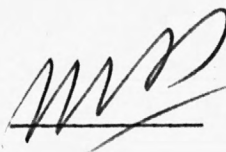
The attached set of minutes of the Board of Governors of the Federal Reserve System on March 14, 1956, which you have previously initialed, has been amended at the request of Governor Mills to revise the next-to-last sentence on page 7.

In addition, Governor Robertson has requested that the words "which he favored" be stricken from the sentence ending on the third line of page 6, and this change also has been made.

If you approve these minutes as amended, please initial below.

Gov. Barth

Gov. Szymczak



Gov. Spang

Gov. Ford

Gov. Mills

Gov. Robertson

Gov. Ballentine

Gov. Thompson

Minutes for March 14, 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>MP</u>	_____
Gov. Szymczak	x <u>MS</u>	_____
Gov. Vardaman	x <u>VP</u>	_____
Gov. Mills	x <u>MP</u>	_____
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u>SPS</u>	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, March 14, 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. Carpenter, Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Riefler, Assistant to the Chairman  
 Mr. Thomas, Economic Adviser to the Board  
 Mr. Leonard, Director, Division of Bank Operations  
 Mr. Vest, General Counsel  
 Mr. Sloan, Director, Division of Examinations  
 Mr. Marget, Director, Division of International Finance  
 Mr. Horbett, Associate Director, Division of Bank Operations  
 Mr. Solomon, Assistant General Counsel  
 Mr. Goodman, Assistant Director, Division of Examinations  
 Mr. Tamagna, Chief, Financial Operations and Policy Section, Division of International Finance

The following matters, which had been circulated to the members of the Board, were presented for consideration and the action taken in each instance was as stated:

Memorandum dated March 7, 1956, from Mr. Sloan, Director, Division of Examinations, recommending that a dinner be given at a local hotel on April 9, 1956, in connection with the Conference of Representatives of Bank Examination Departments of the Federal Reserve Banks and submitting a list of persons proposed to be invited to the dinner.

Approved unanimously.

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Letter to Mr. Charles Cain, Jr., Executive Vice President, The Chase Manhattan Bank, New York, New York, reading as follows:

Reference is made to your letter of January 26, 1956, requesting that the authority granted in the Board's letter of January 23, 1956, to establish a branch in the Rio Piedras section of the City of San Juan, Puerto Rico, be deemed to permit your Bank to commence operations in temporary quarters at the northwest corner of Munoz Rivera Avenue at University Avenue at a distance of three blocks or 1,300 feet from the permanent location. It is noted that the premises at the permanent location are expected to be completed by October 1956.

The Board of Governors authorizes The Chase Manhattan Bank to establish a branch in temporary quarters at the northwest corner of Munoz Rivera Avenue at University Avenue in the Rio Piedras section of the City of San Juan, Puerto Rico, with the understanding that the branch will be moved to the permanent location at 1012 Munoz Rivera Avenue in the Rio Piedras section of the City of San Juan on or before January 1, 1957, as authorized by and subject to the conditions contained in the Board's letter of January 23, 1956.

It is requested that you advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the branch is established and opened for business in the temporary location, furnishing information as to the exact street address.

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

Letter for the signature of Chairman Martin to The Honorable J. W. Fulbright, Chairman, Committee on Banking and Currency, United States Senate, reading as follows:

In 1955 the Board sent to you, as Chairman of your Committee, a copy of the report made by Arthur Andersen & Co. of that firm's audit of the Board's accounts for the year 1954. A copy of the complete report of the audit for the year 1955 is enclosed including (1) Financial Statements as of December 31, 1955 together with Auditors' Certificate, and (2) Scope of Examination.

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In view of the interest which has been shown in these reports, you may wish to bring the attached report to the attention of all of the members of your Committee. Should you wish additional copies of the report, we will be pleased to make them available.

Approved unanimously, together with an identical letter to The Honorable Brent Spence, Chairman, Committee on Banking and Currency, House of Representatives.

At the meeting on March 2, 1956, the Secretary was requested to check the Board's schedule to ascertain when it would be convenient for the Board to meet with a committee (the Economic Policy Commission) of the American Bankers Association to discuss the study of member bank reserve requirements being conducted currently by that group.

Following a report by the Secretary, it was agreed that the Economic Policy Commission should be invited to meet with the Board at 10:00 a.m. on Tuesday, May 1, 1956.

Consideration was given to a memorandum dated March 12, 1956, from Mr. Fauver, Assistant Secretary, reporting a prospective visit to the Board's offices on March 20, 1956, by Mr. Boissarb, President, Credit Foncier de France, a bank dealing in mortgages, and Mr. de Fouchier, President and General Manager, Union Francaise de Banque, a bankers association. For reasons stated in the memorandum, it was suggested that a luncheon with appropriate members of the staff be arranged in the staff dining room on that date.

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It was agreed that the suggested luncheon should be arranged.

There had been circulated to the members of the Board a memorandum from Mr. Horbett dated March 6, 1956, discussing a suggestion which had been made that the Board consider changing the caption of the first item of assets in the weekly Federal Reserve Bank condition statement from "Gold certificates" to "Gold certificates on hand and due from U. S. Treasury", the caption used from January 1934 through December 1944. The suggestion was the result of certain questions raised by Congressman Patman in the course of Chairman Martin's testimony before the House Banking and Currency Committee on February 29, 1956, concerning bill H. R. 9285, which would extend the authority of the Federal Reserve Banks to purchase Government securities in a limited amount direct from the Treasury.

In commenting on the matter, Mr. Leonard recalled that the change to the current caption was made by the Board in 1945 purely for the sake of simplicity and to provide a short caption. He expressed the opinion that the caption now used correctly reflected the nature of the item and said that the Board's decision on whether to make a change at this time therefore must be based on policy considerations. He also pointed out that the length of the condition statement made it necessary in preparing the weekly release to conserve space to the fullest extent consistent with an accurate presentation.

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In a further discussion, during which Mr. Thurston, Assistant to the Board, was called into the meeting, the view was expressed that the matter was not of great importance but that if, as appeared from the hearings, the caption permitted misinterpretation, there was something to be said for revising it.

Governor Robertson then suggested that the caption "Gold certificate account" might be appropriate for the weekly condition statement since it would accurately reflect the nature of the item and yet be concise. He also suggested that the page proof of the Board's Annual Report for 1955 be changed to show in Table 1 a complete breakdown of the gold certificate account, and that the caption "Gold certificates", where appearing elsewhere in the Annual Report tables and in the Federal Reserve Bulletin statistical section, be changed to conform to the caption in the weekly condition statement.

There was unanimous agreement  
with Governor Robertson's sugges-  
tions.

Messrs. Thurston, Leonard, and Horbett then withdrew from the meeting.

Pursuant to the understanding at the meeting yesterday, there was a further discussion of the proposed revision of Regulation K, Banking Corporations Authorized to Do Foreign Banking Business under the Terms of Section 25(a) of the Federal Reserve Act. Since yesterday's meeting,

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there had been sent to the members of the Board copies of a memorandum from Governor Robertson outlining and discussing an alternative approach to the problem. This approach contemplated (1) reprinting Regulation K in the form as amended May 29, 1930, with technical changes necessary to bring it up to date, (2) informing the banking corporations organized under the provisions of section 25(a) of the Federal Reserve Act and the foreign banking corporations operating under agreements with the Board pursuant to the provisions of section 25 that the Board did not propose to make a general revision of Regulation K but would undertake to deal with problems as they arose on a case-by-case basis, and (3) sending a letter to Bank of America, New York, New York, clarifying the questions that had arisen in connection with its operations. A draft of suggested letter to Bank of America was attached to Governor Robertson's memorandum. This approach also contemplated, with respect to the so-called agreement corporations, that the agreements would be revised to such extent as might be necessary to make them consistent with similar provisions in Regulation K.

At the beginning of the discussion, Governor Szymczak referred to his memorandum of January 11, 1956, and went over the seven major points on which decisions would have to be made between alternative provisions before a proposed revision of Regulation K was published in the Federal Register, should the Board decide in favor of such publication. On these points



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Governor Szymczak recommended the liberal alternatives except in the case of suggestions by Bank of America that (a) Edge corporations be allowed to act in the United States as paying agents for securities distributed in the United States, and (b) Edge corporations be permitted to issue letters of credit in the United States for non-merchandise transactions.

There followed a detailed discussion of each of the seven controversial questions.

During this discussion Governor Mills stated that the divergence of views expressed on these matters indicated to him the difficulty of trying to write a regulation containing guidance on specific points for institutions which would be subject to the regulation. He felt that guidance might be prescribed for examiners, but he questioned what the attitude of the affected corporations would be when they attempted to interpret the regulation and he predicted that such a regulation would provoke a volume of inquiries greater than those received under the present Regulation K. Governor Mills said, however, that if it were the decision of a majority of the Board to publish a proposed revision of the regulation which would be in the direction of liberalization, at least the sectors of the financial public concerned would then have an opportunity to pass judgment on those provisions in which they had a direct interest. In making this comment, he reiterated the view which he expressed at the meeting yesterday that it would be a mistake to publish a proposed revision of Regulation K in the Federal Register at this time.

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As indicated by the memorandum which he had distributed, Governor Robertson concurred with Governor Mills to the extent of sharing the belief that it would be unwise to revise Regulation K. On the specific points under discussion, however, he favored the more restrictive alternative provisions. With regard to the questions concerning activities permissible for Edge corporations in the United States, he felt that the liberal alternatives would have the effect of granting Edge corporations permission to undertake activities going beyond the intent of the Edge Act. With respect to the questions involving purchase of stocks and underwriting of securities abroad by nonbanking Edge corporations, he felt that the liberal alternatives would countenance activities not consistent with the policy of the Congress in respect to the separation of commercial and investment banking activities in the United States. They would also be inconsistent, he said, with the position adopted by the Board recently on a draft of bill which would authorize the Board to expand the powers of foreign branches of national banks.

Regarding the suggestions made by Bank of America, referred to previously, it was Governor Robertson's view that if the Board should decide to publish a proposed revision of Regulation K containing liberal provisions with respect to the five other controversial points mentioned in Governor Szymczak's memorandum, it would be entirely consistent to accept the two suggestions of Bank of America.

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It developed from the consideration given to the seven items that five of the members of the Board would be agreeable to publication of a proposed revision of Regulation K, in a form which would incorporate the liberal alternative approach to all of the points covered in Governor Szymczak's memorandum. This would include elimination of the provision in the December 2, 1955, draft of regulation which would prohibit Edge corporations from acting in the United States as paying agents for securities distributed in the United States, and acceptance of the suggestion regarding the use of letters of credit issued by Edge corporations in the United States for non-merchandise transactions.

Chairman Martin then made a statement in explanation of his position in which he first referred to the criticism in some quarters concerning the lack of progressiveness during the past decade in expanding facilities to accommodate the financing of United States foreign trade. He also noted a growing tendency to resort to financing methods outside the purview of banking supervision. Assuming that it would be a mistake, as had been suggested, to move ahead and publish a proposed revision of Regulation K, he pointed out that it would still be necessary to deal with the questions raised by the activities of Bank of America. Aside from a reluctance to proceed on the basis of singling out one particular institution, he felt that it would be advisable for the Board to meet the whole problem in a more fundamental way, for otherwise something in

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the nature of a stalemate might continue to exist. As to whether a revised regulation should tend in the direction of liberalization, he said that although he and Governor Robertson differed in their views from the standpoint of policy, they were both endeavoring to work within statutory limitations.

In a further statement, Chairman Martin said that, particularly with the existence of the foreign aid programs, foreign trade financing had come more and more to be tied into Governmental operations. The point had now been reached, he thought, when the movement should be toward private financing in this field. He recognized that basic questions could be raised as to the value of the Edge Act. However, since almost two years of study had now gone into the problem and the Board had been presented with a means of testing the effectiveness of Regulation K in a form representing the most liberal interpretation that the System committees considered possible, he was of the opinion that the liberal interpretation should be published to ascertain what comments would be provoked by it.

Governor Balderston stated that if the Board set forth guides for the affected foreign banking corporations and for examiners to follow, and if Congress disagreed with those guides, new legislation would be indicated. It was his feeling that the Board should not ask for new legislation until after full use of the Edge Act had been attempted. If trial showed that this was not enough, someone no doubt would propose new legislation.

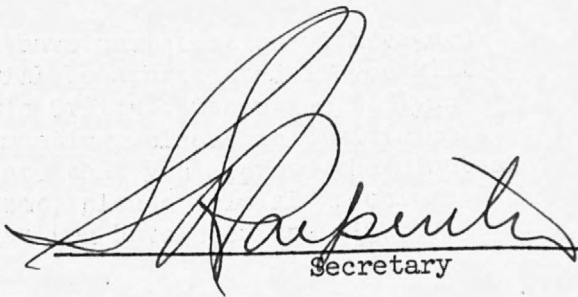
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Governor Robertson said that in addition to the points discussed today, there were certain other provisions of the December 2, 1955, draft revision of the regulation which he would like to have discussed before a decision was made to publish a proposed revision of the regulation in the Federal Register.

Accordingly, it was agreed to continue the discussion of Regulation K tomorrow.

The meeting then adjourned.

  
Secretary

Gov. Martin

Gov. Symmes

Gov. Vandeman

Gov. Hill

Gov. Johnson

Gov. Ballinger

Gov. Chapman