

Minutes for March 15, 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>[Signature]</u>	_____
Gov. Szymczak	X <u>[Signature]</u>	_____
Gov. Vardaman	X <u>[Signature]</u>	_____
Gov. Mills	X <u>[Signature]</u>	_____
Gov. Robertson	X <u>R</u>	_____
Gov. Balderston	X <u>CCB</u>	_____
Gov. Shepardson	X <u>[Signature]</u>	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, March 15, 1956. The Board met in the Board Room at 9:30 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. Vest, General Counsel
 Mr. Young, Director, Division of Research and Statistics
 Mr. Sloan, Director, Division of Examinations
 Mr. Marget, Director, Division of International Finance
 Mr. Solomon, Assistant General Counsel
 Mr. Noyes, Adviser, Division of Research and Statistics
 Mr. Goodman, Assistant Director, Division of Examinations
 Mr. Tamagna, Chief, Financial Operations and Policy Section, Division of International Finance

With regard to 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, Governor Robertson stated that since the meeting yesterday he had gone over other provisions of the draft of regulation on which he had questions but concluded that nothing would be gained by a further discussion if it was the view of a majority of the Board that a proposed revision of the regulation incorporating

3/15/56

-2-

liberal alternatives should be published in the Federal Register. The provisions which he had in mind, he said, could be regarded as consistent with a liberal over-all approach.

Chairman Martin suggested that in the circumstances the Board go forward with publication in the Federal Register of a proposed revision of Regulation K in the form favored by the majority of the Board at yesterday's meeting, it being understood that the record would reflect Governor Mills' doubt as to the wisdom of such action.

Governor Robertson said he would prefer not to record his position formally until such time as the Board might vote on the actual adoption of a revised Regulation K. It was his understanding that the Board was now only taking the step of publishing a proposed revision of the regulation, without commitment, in order to obtain the reactions of interested parties. Therefore, while he could not approve the proposed revision in the form in which it would be submitted for publication, he did not believe it necessary to have a formal vote entered at this stage.

Mr. Vest commented that, as Governor Robertson had stated, the purpose of publication of a proposal in the Federal Register is to fulfill the requirement of the Administrative Procedure Act and obtain the views of those interested in the proposal. There would be no commitment on the part of the Board, he said, to go forward with any part of the proposal.

3/15/56

-3-

Governor Szymczak suggested advising the Federal Reserve Banks of the publication of the proposed revision in the Federal Register, with the request that they notify the Edge corporations and "agreement" corporations and such other parties as they might consider advisable.

Along these lines, it was suggested that copies of the proposed revision be sent to the Federal Advisory Council, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. It was also suggested that the publishing of the proposed revision be called to the attention of the American Bankers Association.

Thereupon, the views of Governors Mills and Robertson having been noted, it was agreed to transmit to the Federal Register for publication a proposed revision of Regulation K in the form favored by a majority of the Board, that is, a form incorporating the so-called liberal alternatives. It was also agreed that the suggestions which had been made with regard to notifying interested parties would be followed, with the understanding that any questions of procedure in this connection would be referred to Governor Szymczak.

Messrs. Marget, Goodman, and Tamagna then withdrew from the meeting.

Pursuant to the understanding at the meeting on March 12, 1956, Governor Robertson talked by telephone with Mr. Bryan, President of the Federal Reserve Bank of Atlanta, and requested him to write to the Board a letter expressing his views on certain aspects of the application for

3/15/56

-4-

membership in the Federal Reserve System filed on behalf of the proposed Peoples Bank of North Miami Beach, North Miami Beach, Florida. In a letter dated March 13, Mr. Bryan discussed the application in some detail. He expressed the opinion that two capably managed banks could be supported at present in the North Miami Beach area, that two banks actually would be needed in a matter of a few months, and that the sponsors of the member bank application could furnish capable management. In all the circumstances, he believed that the application should be approved now and without qualification. Copies of Mr. Bryan's letter had been sent to the members of the Board prior to this meeting.

Governor Robertson said that President Bryan's letter served to clear the record and provided a basis on which the Board could formulate an opinion. He recommended abiding by the judgment of Mr. Bryan and approving the application for membership.

Mr. Sloan concurred in the recommendation and said the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation had advised informally that they would have no objection to approval of the application.

Thereupon, unanimous approval was given to a letter to the Organizers of Peoples Bank of North Miami Beach, North Miami Beach, Florida, for transmittal through the Federal Reserve Bank of Atlanta, approving the application made on the bank's behalf for membership in the

3/15/56

-5-

Federal Reserve System and for stock in the Federal Reserve Bank of Atlanta, subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H and the following special condition, effective if and when the bank is authorized to commence business by the appropriate State authorities:

3. At the time of admission to membership such bank shall have paid-in capital stock of \$600,000, surplus of \$120,000 and other capital funds of not less than \$50,000.

The letter to the organizers contained the following paragraph:

Acceptance of the conditions of membership contained in this letter should be evidenced by a resolution adopted by the board of directors after the bank's Certificate of Authorization to transact a general banking business has been issued. The board of directors also should adopt, at the same time, a resolution ratifying the action which has been taken in the bank's behalf in making application for membership in the Federal Reserve System. A certified copy of each resolution, together with advice of compliance with the condition to be complied with prior to admission to membership, should be transmitted to the Federal Reserve Bank. Arrangements will thereupon be made to accept payment for an appropriate amount of Federal Reserve Bank stock, to accept the deposit of the required reserve balance, and to issue the appropriate amount of Federal Reserve Bank stock to the bank.

The letter of transmittal to the Federal Reserve Bank of Atlanta contained the following paragraph:

Before issuing stock in the Federal Reserve Bank of Atlanta to the new State institution, you are requested to satisfy yourself that its capital stock of \$600,000 and surplus of \$120,000 have been paid in, that a Certificate of Authorization to transact a general banking business has been issued, and not less than \$50,000 of other capital funds provided as set forth in the plan submitted. At such time your

3/15/56

-6-

Counsel should review all steps taken in the organization of the bank, and certified copies of all organization papers not previously submitted and resolutions adopted by the board of directors should be forwarded to the Board, together with a copy of Counsel's opinion. A Certificate of Counsel on Form 83E also should be furnished in order to complete the bank's application for membership.

Mr. Sloan then withdrew from the meeting and Mr. Cherry, Legislative Counsel, entered the room.

There had been sent to the members of the Board copies of drafts of two proposed letters to Senator Fulbright, Chairman of the Senate Committee on Banking and Currency, prepared in response to requests from Chairman Fulbright for reports on (1) bill S. 3296, to amend the Federal National Mortgage Association Charter Act "to encourage private transactions in Federal Housing Administration insured and Veterans' Administration guaranteed mortgages at stabilized prices which approach or equal par value of such mortgages, and for other purposes", and (2) bill S. 3186, providing for the establishment of a Commission on National Housing Policy. The draft of letter with respect to S. 3296 would state reasons for the conclusion that the enactment of the bill would not be conducive to long-term growth and stability in the housing field or in the economy generally. The draft of letter with respect to S. 3186 would state that the Board saw no objection to the establishment of such a commission since the resulting study and report might be helpful in formulating sound housing policies. It would, however, raise certain questions concerning the declaration of policy and purpose and the provisions of the bill stating the duties of the commission.

3/15/56

-7-

Mr. Riefler said that according to the staff of the Committee on Banking and Currency, the bills were scheduled to come up for hearings at an early date and the Committee would welcome any statement or appearance that the Board might care to make. He thought that the proposed letters would satisfy the request for a statement, and he said he would not suggest that the Board seek an appearance. With regard to the drafts, he said that certain suggestions had been received from Governor Mills.

Governor Mills then reviewed his suggestions, which in general were intended to avoid statements which, if challenged, could not be supported except as a matter of opinion. He felt that the changes could be made without substantially affecting the strong tone of the letters, particularly the letter relating to S. 3296.

Agreement was expressed with Governor Mills' suggestions, and in a further discussion certain additional changes of a more minor character were agreed upon.

In response to a question of procedure, the view was expressed that because of the time factor and other circumstances, the replies should be sent direct to the Chairman of the Senate Banking and Currency Committee, with copies to the Bureau of the Budget as a matter of information.

Governor Vardaman pointed out that S. 3186 seemed to set forth a policy which, it might be implied, the Commission on National Housing

3/15/56

-8-

Policy would be expected to confirm. In this connection, he noted that the bill called for the Chairman of the Board of Governors to serve as a member of the commission.

Mr. Riefler responded that the draft of letter concerning that bill was intended to urge strongly the providing of a proper mandate to the commission. It was the thought of the staff, he said, that if necessary the Chairman of the Board could contribute a strongly worded minority report.

Governor Vardaman then stated that in the absence of objection, he would like to have action on the letters deferred until tomorrow so that he might give further thought to this aspect of the matter, discuss it with the staff, and perhaps submit revised language for the Board's consideration.

In view of Governor Vardaman's request, it was understood that the matter would be placed on the agenda for further consideration at the meeting of the Board tomorrow.

Chairman Martin stated that the Treasury was sponsoring another conference for commercial bank economists similar to a conference held last year, and that Under Secretary Burgess had inquired whether the participants might visit the Board's offices on Wednesday, May 9. He understood there would be about 30 in the group.

It was suggested that an economic presentation and discussion be arranged for the group in room 1202 and that they be invited to have

3/15/56

-9-

luncheon in the staff dining room as guests of the Board, it being understood that the trustees of the Federal Reserve Retirement System also would be using the staff dining room on that date.

These suggestions were approved unanimously.

Mr. Carpenter presented a memorandum dated March 14, 1956, from Mr. Bethea, Director, Division of Administrative Services, which stated that pursuant to the understanding at the meeting of the Board on March 8, there had been further negotiations with the Heurich Brewing Company for outside storage space and a lease had been drawn up and executed by the Heurich Brewing Company pursuant to which the Board would rent 812 square feet of storage space at the company's building situated near 26th and Water Streets, N. W., for a period of one year beginning March 16, 1956, at an annual rental of \$1,200, with option to renew from year to year but not beyond March 15, 1959, and with a provision that either party might cancel the lease at any time after the initial annual period upon 90 days' written notice. The memorandum stated that the lease was drawn up in substantially the same form as a draft submitted to the company except for deletion of a condition that 24-hour watchman service was to be provided. Since it developed that this change was made because no watchman is employed during hours when the regular office force is on the premises, the memorandum recommended that the Board authorize execution of the lease and transmittal of a letter to the Company confirming the understanding with respect to protection service.

3/15/56

-10-

Following a brief discussion, the Secretary was authorized to execute the lease on behalf of the Board and the proposed letter to the Heurich Brewing Company was approved.

Governor Robertson referred to his comments on proposed bank merger legislation at the meeting on March 12, 1956, and said that in accordance with the understanding at that time he and Mr. Vest attended a meeting yesterday in the office of the Treasury's General Counsel, at which Assistant Attorney General Barnes, Comptroller of the Currency Gidney, Deputy Comptroller of the Currency Jennings, and General Counsel Coburn of the Federal Deposit Insurance Corporation also were present. He said that with regard to the so-called compromise bank merger proposal developed by the three bank supervisory agencies, there evidently was some misunderstanding of the background, for it was referred to by the Treasury's General Counsel as representing a "Herculean task" which somebody had undertaken and had gotten the three Federal bank supervisory agencies to agree on. He also said that Mr. Barnes objected to the proposal because he had been informed that it was a substitute for Clayton Act legislation, yet did not use language of the Clayton Act and left out the Attorney General. Governor Robertson went on to say that he and Mr. Vest tried to make it clear that the Board would not, as Mr. Barnes thought, contemplate withdrawing from its position that if Clayton Act legislation were raised, the Board would testify as it did previously.

3/15/56

-11-

It was explained, he said, that although the new proposal would solve a large portion of the problem in that it would give the supervisory agencies broader coverage of cases and consequently would ease the need for an amendment to the Clayton Act, it was not a substitute for Clayton Act legislation. It was also explained that this was a part of banking legislation and that the bank supervisory agencies were in a better position to approve the matters in question than agencies knowing nothing about banking conditions.

Governor Robertson said that while Mr. Barnes withdrew from positions on which he apparently had been improperly advised by his staff, his main point was that the Department of Justice should at least be in a position to advise because the three supervisory agencies would formulate their own standards with respect to this legislation. There was no agreement among the participants on this point at the time the meeting concluded. However, representatives of the supervisory agencies met further, at which time it was more or less agreed that the representatives of the Board would undertake to add a sentence to the so-called compromise proposal which would carry out one of the recommendations the Board made before, namely, that any one of the agencies could ask the Attorney General for advice if it wished to do so. This would include a provision that if the Attorney General did not object, the agency could go ahead and act. Governor Robertson concluded by saying that Mr. Vest was

3/15/56

-12-

preparing such language, that the proposal would be brought back to the Board, and that if the Board agreed, the language would be submitted to the other agencies in order to try to arrive at something which the Department of Justice would agree to and which could then be submitted to the Congressional Banking and Currency Committees.

Mr. Vest commented, by way of emphasis, that Mr. Barnes seemed opposed to the whole idea, his basic reason being that the Department of Justice was the agency which should decide anti-trust features of a bank merger. Whether Mr. Barnes would go along with any compromise seemed to Mr. Vest to be questionable.

Governor Szymczak presented a memorandum from Mr. Solomon dated March 13, 1956, which stated that pursuant to the action of the Board on February 20, 1956, the Federal Reserve Bank of New York had obtained informally the views of the American Telephone and Telegraph Company and the New York Stock Exchange on the proposed "bring-up" amendment in relation to convertible debentures which would be included in Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange. While the Company had no objection, the Exchange commented that it would like the draft to go still further in the direction of equalizing competitive conditions between brokers and banks. However, when the difficulties which that would present were cited, the Stock Exchange representative did not seem inclined to press the point vigorously.

3/15/56

-13-

The question, Governor Szymczak said, was whether, in the circumstances, the matter should be raised tomorrow with the Stock Exchange representatives who were to meet with the Board to discuss developments of mutual interest.

After a discussion of the matter, Chairman Martin suggested that the matter be raised at the meeting in an incidental way so that the Stock Exchange representatives could present any further views if they so desired.

There was agreement with this suggestion.

In this connection, the further suggestion was made that in the absence of developments which would seem to make a different course of action advisable, the proposed amendment be sent to the Federal Reserve Banks for comment after the meeting tomorrow with the Stock Exchange officials.

This suggestion was approved unanimously.

Mr. Solomon commented that some time ago the New York Stock Exchange requested an amendment to Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, which would change from three to four full business days the maximum time allowed for obtaining margin under the regulation. He recalled that the Board decided against making the amendment, particularly

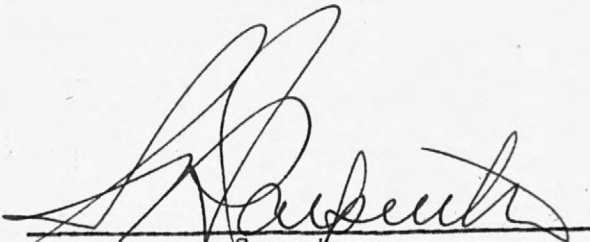
3/15/56

-14-

in view of stock market conditions at the time. However, the Exchange recently approved a recommendation of its Special Review Committee on Rules and Procedures favoring such a revision and it seemed possible that the Stock Exchange representatives would refer to the matter tomorrow.

It was understood that copies of the memorandum submitted by Mr. Solomon to the Board under date of February 16, 1955, concerning the original request of the Stock Exchange would be sent to the members of the Board for review prior to tomorrow's meeting.

The meeting then adjourned.



Secretary