Minutes for April 18, 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.

Chm. Martin
Gov. Szymczak
Gov. Vardaman
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson

A
B
Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, April 18, 1956. The Board met in the Board Room at 3:00 p.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Vest, General Counsel
Mr. Sloan, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Masters, Assistant Director, Division of Examinations
Mr. Holahan, Supervisory Review Examiner, Division of Examinations
Mr. Mangels, President, Federal Reserve Bank of San Francisco

There were distributed copies of a telegram dated April 17, 1956, from the examiner for the Federal Reserve Bank of San Francisco in charge of the current examination of The Continental Bank and Trust Company, Salt Lake City, Utah, to Mr. Sloan in which the examiner advised that the notice of a special meeting of the stockholders of the bank on May 8, 1956, was being mailed that day to the stockholders, along with a proxy form. The documents were reported to be in the same language, with certain minor exceptions, as the drafts previously furnished the Board by the examiner. The telegram also quoted a covering letter being sent to
the stockholders over the signature of the bank's President, Mr. Walter E. Cosgriff.

In addition, there were distributed copies of a draft of proposed reply to Mr. Cosgriff's letter to the Board of March 28, 1956, revised in a form which incorporated suggestions made at the meeting of the Board on April 16. The letter would say that the Board would not be represented at the shareholders' meeting on May 8.

Chairman Martin stated to President Mangels that the Board would appreciate his views on the nature of the reply that should be made to Mr. Cosgriff's letter of March 28 and on the question whether special counsel should be retained to handle this case.

In response, Mr. Mangels said that he would favor a reply to Mr. Cosgriff taking the position stated in the draft distributed at this meeting. He requested, if the draft were approved by the Board, that it include a statement that the Federal Reserve Bank of San Francisco would not be represented at the shareholders' meeting.

On the question of special counsel, Mr. Mangels recalled that when he met with the Board on March 6 he expressed the view that Mr. O'Kane, General Counsel for the San Francisco Reserve Bank, would be fully capable of handling the case. While he continued to believe that Mr. O'Kane could do a good job, it seemed to him upon further consideration of the matter that it would be better from the over-all standpoint...
if counsel from outside the System were retained. In reaching this conclusion, he had in mind, among other things, the public relations point of view; i.e., that there would be some advantage in having a disinterested party serve as counsel.

In a discussion of the proposed reply to Mr. Cosgriff, it was suggested that before any letter was sent the Board should be certain of the wording of the notice and proxy form actually sent by the member bank to its shareholders. Mr. Mangels pointed out that Mr. Cosgriff, in his letter of March 28, stated that copies of the documents would be sent to the Board. He suggested, therefore, that the Board might want to receive the copies and review them before the reply was mailed to Mr. Cosgriff.

There was agreement on the part of the Board members that the draft of reply should be changed, as proposed by Mr. Mangels, to indicate that neither the Board nor the San Francisco Reserve Bank would be represented at the stockholders' meeting. Agreement also was reached on an editorial change suggested by Governor Szymczak.

The substance of the letter was then approved unanimously, with the understanding that the letter would be sent to Mr. Cosgriff following receipt of copies of the notice of the meeting and proxy form sent to the bank's stockholders and that references in the letter to the notice and proxy would be made to agree with the language in those documents.
Secretary's Note: The letter sent in accordance with this action was dated April 20, 1956, and read as follows:

This is in reply to your letter of March 28, stating that a special meeting of stockholders of your bank will be held on May 8 and inviting representatives of the Federal Reserve System to attend.

Since receiving your letter, the Board of Governors has received copies of the Notice and proxy form that the management has sent to the bank's stockholders. The Notice states specifically that the proposal to increase the bank's capital funds is "opposed by the Board of Directors of our Bank" and the proxy form states that the proxy will be voted against that proposal unless the stockholder otherwise directs. The directors, together with their close relatives, control the majority of the bank's outstanding stock.

The willingness of the Board of Governors and the Federal Reserve Bank of San Francisco to participate in further discussions was based on the assumption that the matter would be open for discussion and that the adoption of a capital-increase program would not have been already foreclosed. Since the directors of the bank have indicated their intention to vote down the capital-increase proposal at the May 8 meeting, it appears that no beneficial result could be expected from the attendance of the Federal Reserve representatives. Accordingly, the Board of Governors and the Reserve Bank will not be represented at the meeting.

It is requested that the Board be advised of the action taken in this matter at the meeting on May 8.

The discussion then reverted to the subject of special counsel and Chairman Martin recalled that at the Board meeting on April 16 Mr. Vest was asked to look into the question of what counsel might be employed.
Mr. Vest commented that at the meeting on April 16 the view was expressed that selection of counsel located in Washington, D. C., might be most appropriate, particularly since any litigation to review a decision of the Board of Governors in this case probably would be heard before the United States Court of Appeals in this city. He then suggested the name of a Washington attorney who might be selected as special counsel because of his familiarity with the banking system and with formal proceedings and his success and standing in the practice of law. Mr. Vest stated that, if the Board so desired, the matter of serving as special counsel in this case could be discussed with the attorney on a tentative basis.

President Mangels expressed the opinion that the person suggested by Mr. Vest would appear to be well-qualified for the purpose.

Chairman Martin then proposed that this matter be discussed further in executive session at another meeting of the Board.

The meeting then adjourned.