

Minutes for May 2, 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>[Signature]</u>	_____
Gov. Balderston	x <u>[Signature]</u>	_____
Gov. Shepardson	_____	<u>[Signature]</u>

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, May 2, 1956. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Vardaman
Mr. Mills
Mr. Robertson

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Vest, General Counsel
Mr. Sloan, Director, Division of Examinations
Mr. Marget, Director, Division of International Finance
Mr. Solomon, Assistant General Counsel
Mr. Hackley, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Cherry, Legislative Counsel
Mr. Tamagna, Chief, Financial Operations and Policy Section, Division of International Finance

In accordance with the understanding at the meeting on Friday, April 27, there had been sent to the members of the Board copies of a memorandum from Mr. Hackley dated April 30 submitting a draft of letter to the Federal Reserve Banks and a draft of press statement which had been prepared for possible use in the event the President signed the Bank Holding Company Act of 1956. The letter would set forth in a general way the interim procedure to be followed pending the adoption of formal

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regulations by the Board and distribution of the necessary forms. The press statement would describe briefly the effect of the Act, point out that it was a criminal statute, state that all applications and inquiries should be submitted to the Federal Reserve Bank of the appropriate district, and indicate that the Board would be guided by the policies stated in the law.

In response to an inquiry by Governor Robertson, Mr. Hackley discussed the purposes which would be served by the proposed letter and press statement. One reason for a press statement, he said, would be to call attention to the fact that the law was applicable to all banks, both member and nonmember. In addition, the statement would give some guidance to affected parties as to the requirements of the law and the procedures to be followed. The letter to the Reserve Banks would serve to inform them regarding procedures that would be appropriate in the event certain situations required action before the necessary forms and regulations could be issued.

There followed a discussion of the advisability of issuing a press statement on an occasion of this kind. The view was expressed that, if such a statement were issued, it should be as brief as possible consistent with providing information which might be helpful to interested parties. It was considered unnecessary to refer to the fact that the Board, in discharging its responsibilities under the new law, would be guided by the policies of Congress as reflected by the statute, since this would be obvious.

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The discussion then turned to the proposed letter to the Federal Reserve Banks and suggestions were made by Governor Robertson for certain changes in the draft.

At the conclusion of the discussion, there was unanimous agreement that the advice to be sent to the Federal Reserve Banks and the form of statement to be issued when the Bank Holding Company Act of 1956 became law should be as follows:

Bank Holding Company Act of 1956 signed by President today. Copy of Act will be furnished you as promptly as possible.

It is contemplated that procedures for channeling applications, reports, registration statements, and inquiries will be generally similar to those followed in connection with administration of other statutory functions of Board such as those relating to approval of branches and granting of voting permits. Accordingly, in discharging its new responsibilities under this Act, Board will need assistance of the Federal Reserve Banks.

Regulations under new law, as well as registration, application and other forms, will be prepared as soon as possible. In meantime, in the event it should become necessary for any bank holding company to obtain the Board's prior approval for acquisition of stock or assets of any bank, it is suggested that procedure be as follows:

Bank holding company should file with Federal Reserve Bank application for approval by Board of proposed transaction. Such application, which may be in form of a letter, should include complete and detailed information relating to financial history and condition of bank holding company and bank whose stock or assets are to be acquired; convenience, needs, and welfare of community and area concerned; nature and extent of bank holding company's interests in other banks and in nonbanking businesses; effect of proposed transaction upon banking competition in area

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in which bank is located; and such other information as may be relevant to consideration by Board of factors set forth in section 3(c) of Act.

Upon receipt of any such application, Federal Reserve Bank should promptly develop such additional information as may be necessary to enable Board to pass upon application in light of factors stated in law, particularly data which may have a bearing upon whether proposed transaction would have effect of expanding bank holding company system involved beyond limits consistent with adequate and sound banking, public interest, and preservation of competition in field of banking. All such additional information should be submitted with application of bank holding company, together with recommendation of Federal Reserve Bank as to whether application should be approved or disapproved. Two copies of application and supplemental material should be transmitted by Reserve Bank to Board.

Text of press statement being issued by Board today regarding new statute follows:

PRESS STATEMENT

The Bank Holding Company Act of 1956 became law on May , 1956. It applies to all banks whether or not members of the Federal Reserve System. Subject to certain exceptions, a bank holding company for the purposes of the law is any company which owns or controls, directly or indirectly, 25 per cent or more of the stock of each of two or more banks. In general, this Act requires every bank holding company (1) to obtain the prior approval of the Board of Governors before it acquires, directly or indirectly, the stock or substantially all the assets of any bank, and (2) within two years after the date of the Act to dispose of any nonbanking assets held by such bank holding company. All bank holding companies must register with the Board within 180 days after the date of the Act. Any bank which is a subsidiary of a bank holding company is prohibited by the law from making any loans to, or investing in the stock or obligations of, such bank holding company or any other subsidiary of such company. Violations of the Act are subject to criminal penalties.

Regulations and forms pursuant to the new law are now in process of preparation. In the meantime, any bank holding

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company which proposes to acquire the stock or substantially all the assets of any bank, should file application for the Board's approval with the Federal Reserve Bank of its district. Any inquiries with respect to the provisions of the new law should also be directed to the appropriate Federal Reserve Bank.

Mr. Thurston then withdrew from the meeting.

Mr. Vest reported on a conversation which he had yesterday with a legal representative of Transamerica Corporation, San Francisco, California, who outlined certain purported defects in the Bank Holding Company Act of 1956. It appeared that the President of Transamerica (Mr. Frank Belgrano) was to arrive in Washington today for the purpose of presenting his views to various Government officials in the hope that they would intercede with the President and urge him not to sign the proposed law in its present form. Mr. Vest said it was stated to him that Mr. Belgrano would be glad to discuss any aspects of the legislation with Chairman Martin if the latter wished to have such a discussion.

It was the view of the Board that there was no apparent reason why Chairman Martin should request a discussion of the subject with Mr. Belgrano.

Mr. Cherry reported that Congressman Spence, Chairman of the House Banking and Currency Committee, had requested and had been furnished a list of banks acquired by Transamerica Corporation since the beginning of 1956. The list was furnished with the understanding that it had been

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compiled partly on the basis of unofficial information which had come to the Board's attention. Mr. Cherry also said that some criticism reportedly had been directed at Mr. Spence by a member of the Banking and Currency Committee over the manner in which the bank holding company bill was gotten through the House of Representatives. As he understood the facts, however, an agreement was reached, with the concurrence of the minority leadership, that it would be appropriate for the House to adopt the bill in the form in which it had passed the Senate. Mr. Cherry said that information subsequently was sent to Mr. Spence concerning the reported acquisition of five additional banks by Transamerica Corporation. He stated that available information on banks acquired by all holding companies since February 1, 1956, also had been furnished to the Legislative Reference Service of the Library of Congress, it being understood that the Library was requesting the information on behalf of a member of the Congress.

Messrs. Hackley and Cherry then withdrew from the meeting.

There had been sent to the members of the Board copies of a memorandum from Mr. Marget dated April 26, 1956, submitting a draft of letter to the Federal Reserve Bank of New York which, in accordance with the Bank's request, would approve an increase from \$50 million to \$100 million in the maximum amount of bankers' acceptances which may be purchased and guaranteed by the Reserve Bank for foreign central banks, including the

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Bank for International Settlements, at any one time. According to the memorandum, the purchases of acceptances would continue to be coordinated with other similar operations and would be effected within the limits set by System open market policy. The purpose of the increased authorization would be to enable the Reserve Bank to meet requests from foreign central banks in the light of the distinct preference shown by them for bankers' acceptances as a form of short-term investment for their funds.

Following an explanatory statement by Mr. Marget, Governor Mills raised certain questions which he felt deserved consideration. He first asked whether the purchase and guarantee procedure afforded a preference to the foreign investor that is not available to the domestic investor in the same type of paper. He went on to state that with only about \$700 million of bankers' acceptances outstanding, as of a recent date, the New York Bank would be preempting for foreign banks a substantial share of the total volume of acceptances. Removing such a quantity from the general investment market might present a question which should be studied, particularly when the System had been exerting its efforts to support the use of bankers' acceptances. A concomitant to that effort would seem to be to have as broad an investment market for the paper as possible. If a substantial percentage of the outstanding volume were preempted for use by foreign banks, the System would automatically be restricting domestic

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investment by limiting the supply that could reach that market. He also understood that the foreign investor had income tax preference with respect to acceptances that does not inure to the domestic investor. While he did not mean to infer that the foreign investor should not enjoy all the courtesies that a foreign central bank would deserve, it seemed to him questionable whether in offering those courtesies the System should participate in an action which might be inimicable to the broadest and most viable type of acceptance market.

Governor Mills then suggested that the transactions for foreign banks might at some time result in conflict with the System's monetary and credit policies. For example, if a point should be reached when the foreign banks lost their investment interest in acceptances and dropped out of the market, it would mean that the volume of acceptances they had theretofore purchased would fall back on the American market to be absorbed. If at such a time the System was following a policy of credit restraint, purchase of the acceptances by the System might result in a policy conflict, since the purchases would inject into the market reserves not otherwise supplied and these reserves would have to be offset in some way. It might be, he said, that the foreign banks, in entering the acceptance market, were a desirable purchasing factor in the entire market scheme and should be welcomed. However, they might at times constitute an influence that would be adverse to the System's own policy objectives.

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In raising these questions, Governor Mills said, he wished to make it clear that he was not entirely familiar with the reasons that had guided the New York Reserve Bank in so substantially serving the foreign banks in acquiring acceptances.

Mr. Marget responded to Governor Mills' comments by saying that if the Reserve Bank should cease to act as agent, the foreign banks might continue to invest in bankers' acceptances in the market. The principal difference, he suggested, would be that the guarantee available to the foreign investors would be that of the commercial bank used as agent. In the circumstances, he thought that most of the points made by Governor Mills, including the tax question, would apply whether or not the Reserve Bank was in the picture. The tax question, he said, appeared to be mostly a Treasury matter and the staff had called the situation to the attention of the Treasury staff on several occasions. He went on to say that in the opinion of the New York Reserve Bank there was some advantage in having the foreign transactions centralized as much as possible so that the Reserve Bank could keep an eye on developments.

Governor Robertson said he understood that foreign banks were inclined to take only "three-name" paper. If that were so, it seemed doubtful whether they would use a commercial bank as agent to acquire bankers' acceptances. It was his feeling that it might be advisable to defer action on the New York Bank's request and ask the Bank to review

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the arrangements under which it had purchased acceptances for foreign accounts and guaranteed their payment at maturity.

There being agreement with Governor Robertson's suggestion, it was understood that an appropriate letter would be sent to the New York Reserve Bank.

Secretary's Note: Pursuant to this action, the following letter was sent to Mr. Sproul, President, Federal Reserve Bank of New York, on May 4, 1956:

The Board of Governors has discussed the request contained in Mr. Exter's letter of April 17, 1956, that the authorized figure of bankers' acceptances that may be purchased with your Bank's guarantee of payment at maturity and held at any one time by the Bank for foreign central banks (including the Bank for International Settlements) be increased to \$100 million.

The Board's letter of February 9, 1937, which limited the amount of such purchases by your Bank, reads in part as follows: ". . . while it is recognized that the Federal Reserve banks should be in a position to act upon the requests of foreign central banks without being under the necessity of referring each specific case to the Board before the transaction is executed, it is felt that some reasonable limit should be fixed upon the aggregate amount of the liability that may be assumed by the Federal Reserve banks and be outstanding at any one time without further authorization from the Board, so that, when the total of such liability approaches the limit fixed by the Board, it will be in a position to review the matter from the standpoint of possible effects upon the domestic credit situation, before additional purchases are made which will increase the aggregate contingent liability to an amount beyond such limit."

In view of the time that has elapsed since this whole matter was reviewed, the Board would appreciate it very much if, before giving Mr. Exter's request further consideration, your Bank would prepare a memorandum reviewing fully the background and reasons for the present arrangement under which your Bank

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purchases bankers' acceptances for foreign central banks. The review should cover particularly whether such purchases should continue to be made by the Federal Reserve Bank, the effects of these purchases on the domestic market for bankers' acceptances and the total volume of acceptances outstanding, and the reasons for the existing agreements to repurchase acceptances and to guarantee their payment at maturity.

It may be that this is a matter which should be discussed at a meeting of the Federal Open Market Committee after the memorandum referred to above has been prepared.

In a letter to the Board dated March 14, 1956, Mr. Howard Sheperd, Chairman of the Board of Directors of International Banking Corporation, New York, New York, outlined a plan whereby The First National City Bank, also of New York, would transfer to trustees its stock of International Banking Corporation, which operates under an agreement with the Board pursuant to section 25 of the Federal Reserve Act. The plan also contemplated sale by International Banking Corporation of its banking business to an Edge Act corporation which would be organized by The First National City Bank. In a memorandum dated April 20, 1956, copies of which had been sent to the members of the Board, Messrs. Solomon and Shay discussed the background of the matter, the several phases of the proposal, the views which had been received by The First National City Bank from the Comptroller of the Currency, and aspects of the matter to be considered by the Board. Submitted with the memorandum was a draft of a possible reply to Mr. Sheperd which would review the circumstances leading up to the proposal, including the Board's request of August 16, 1955, that International

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Banking Corporation dispose of its stock in The County Trust Company, a State member bank located in White Plains, New York. The draft of letter also would advise Mr. Sheperd that, in accordance with his request, the Board would be willing to discuss the plan with him on a mutually convenient date in the near future.

At the request of the Board, Mr. Solomon reviewed the reasons which apparently prompted The First National City Bank to formulate the current plan. In this connection, he brought out that so far as the law was concerned it appeared that the principal action which the Board would be called upon to take would be to approve the proposed Edge Act corporation which would be organized to take over the banking business of International Banking Corporation.

There followed a discussion of the proposal submitted by Mr. Sheperd, the underlying circumstances, the action required by the Board in relation to the plan, the operation of the proposed trustee arrangement, and the possibility that similar arrangements might be used by bank holding companies in connection with provisions of the Bank Holding Company Act of 1956.

At the conclusion of this discussion, Chairman Martin suggested that the Board refrain from coming to any conclusions in the matter until such time as Mr. Sheperd had been afforded an opportunity to meet with the Board and discuss the various aspects of the plan in more detail.

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Such a meeting, he felt, should serve to clarify the problems which caused The First National City Bank to formulate the proposal. Without knowledge of such considerations, he considered it difficult for the Board to evaluate the situation properly. He then suggested that it might be desirable to send Mr. Sheperd a copy of the memorandum prepared by Messrs. Solomon and Shay so that he would be familiar with the points raised in it and would be prepared to discuss them.

Following a review of the Board's schedule by the Secretary, it was agreed unanimously to send a letter to Mr. Sheperd inviting him to meet with the Board on May 14, 15, or 18, whichever date would be most convenient, and to enclose with the letter a copy of the memorandum prepared by Messrs. Solomon and Shay.

Secretary's Note: Pursuant to this action, the following letter was sent to Mr. Sheperd on May 3, 1956:

Your letter of March 14, 1956 outlines a plan for The First National City Bank of New York to transfer the stock which it owns of International Banking Corporation and states that you "would welcome the opportunity to discuss the Plan, and any related matter, with the Board or anyone whom it may designate for the purpose."

The Board could arrange such a discussion for 10:00 a.m. on May 14, May 15, or May 18, and it is suggested that you advise this office as to which of these times would be most convenient. In this connection there is attached for your information a copy of a memorandum which was prepared on the subject for the Board, and which outlines some of the background and questions relating to your proposal.

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Messrs. Sherman, Marget, Shay, and Tamagna then withdrew from the meeting.

Mr. Carpenter read a letter received under date of April 30, 1956, from Mr. Walter E. Cosgriff, President of The Continental Bank and Trust Company, Salt Lake City, Utah, commenting further in respect to the proposal that the bank's capital be increased by not less than \$1,500,000.

It was the view of the Board that Mr. Cosgriff's letter was not of such a nature as to require a reply, at least at this time.

The meeting then adjourned.

Secretary's Note: Governor Balderston today approved on behalf of the Board the following matters:

Memorandum dated April 27, 1956, from Mr. Leonard, Director, Division of Bank Operations, recommending the appointment of Marcia Ruth Grossman as Clerk-Stenographer in that Division, with basic salary at the rate of \$3,670 per annum, effective the date she assumes her duties.

Memorandum dated April 27, 1956, from Mr. Leonard, Director, Division of Bank Operations, recommending the appointment of Janet Ann Weeks as Clerk in that Division, with basic salary at the rate of \$3,345 per annum, effective the date she assumes her duties.

Memorandum dated April 27, 1956, from Mr. Marget, Director, Division of International Finance, recommending the appointment of Ann C. Tompros as Clerk-Stenographer in that Division, with basic salary at the rate of \$3,670 per annum, effective the date she assumes her duties.

Letter to Mr. Powell, President, Federal Reserve Bank of Minneapolis, reading as follows:

In accordance with the requests contained in your letters of April 26, 1956, the Board approves the appointments

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of Raynold Wilbur Anderson and Harold M. K. Swanson, as examiners for the Federal Reserve Bank of Minneapolis. If the appointments are not made effective May 16, 1956, as planned, please advise us.

It is noted that Mr. Swanson is indebted to First Robbinsdale State Bank, Robbinsdale, Minnesota, a nonmember bank controlled by First Bank Stock Corporation, in the amount of \$1,500.24 secured by a mortgage on his home. Accordingly, the Board's approval is given with the understanding that Mr. Swanson will not be authorized to participate in any examination of First Bank Stock Corporation, First Robbinsdale State Bank, or any other bank in the First Bank Stock group until his indebtedness to the Robbinsdale bank has been liquidated or otherwise eliminated.


Secretary