

Minutes for May 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.

| | A | B |
|-----------------|--------------|--------------|
| Chm. Martin | x <u>WM</u> | _____ |
| Gov. Szymczak | x <u>MS</u> | _____ |
| Gov. Vardaman | _____ | x <u>(V)</u> |
| Gov. Mills | x <u>MS</u> | _____ |
| Gov. Robertson | x <u>R</u> | _____ |
| Gov. Balderston | x <u>CCB</u> | _____ |
| Gov. Shepardson | x <u>MS</u> | _____ |

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, May 18, 1956. The Board met in the Board Room at 9:30 a.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Messrs. Young, Williams, Brill, Eckert,
Gehman, Jones, Miller, Weiner, True-
blood, Wernick, and Wood of the Di-
vision of Research and Statistics

The representatives of the Research Division presented a re-
view of business and financial developments, after which they withdrew
from the meeting and Mr. Vest, General Counsel, entered the room.

Reference was made to a memorandum from Mr. Vest dated May 16,
1956, copies of which had been sent to the members of the Board, recom-
mending that he be authorized to invite Counsel for the twelve Federal
Reserve Banks to come to Washington at a convenient time for a meeting
of not more than two days to discuss legal problems which might arise
under the Bank Holding Company Act of 1956. It was hoped that the meet-
ing could be arranged for the last week in May or the early part of the
first week in June.

Mr. Vest was authorized by
unanimous vote to arrange the
meeting.

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There were presented telegrams proposed to be sent to the Federal Reserve Banks of New York and Chicago approving the establishment without change on May 17, 1956, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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:

Letter to Mr. J. Delafield DuBois, Assistant Secretary, Morgan & Cie. Incorporated, New York, New York, reading as follows:

This refers to your letter of February 7, 1956, in reply to the Board's letter of December 29, 1955, regarding various matters in the report of examination of the Paris Branch of your Bank made as of April 15, 1955, by examiners for the Board of Governors.

It is noted that arrangements will be made to effect participations either simultaneously with, or in advance of, credit extensions which would result in excessive amounts except for such participations, and that participation entries will be made not later than the date the transactions occur.

It is also noted that you were proceeding to bring extensions of credit to Le Materiel Telephonique into accord with the position taken by the Board.

You have requested that the Board of Governors write you--

"waiving the limitations of Section 4 of the Agreement insofar as they relate to liabilities of, or guaranteed as to principal and interest by, the U. S. Government, the Republic of France or organizations wholly owned directly or indirectly by either such government or in which either such government owns directly or indirectly at least a controlling interest".

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As you know the Board of Governors has recently had published in the Federal Register, for the comments of interested persons, a draft revision of Regulation K which, as proposed, would apply in certain respects to corporations having agreements or undertakings with the Board of Governors under Section 25. Section 10(a) of the draft revision relates to liabilities of one borrower.

It is assumed that you have received a copy of the March 23, 1956 draft revision of Regulation K and that you will submit any comments or suggestions your Bank may have regarding the draft revision. Accordingly, unless the limitations in Section 4 of the Agreement are currently restricting the operations of your Paris Branch materially, the Board would prefer to defer consideration of your request until the Board has acted upon the adoption of the proposed draft revision of Regulation K.

It is noted that in future reports of condition rendered to the Board "bills sold to Bank of France and Credit National with the endorsement of Morgan & Cie. Incorporated" are to be treated as "Bills payable, rediscounts, and other liabilities for borrowed money".

With reference to measures taken to safeguard clients' deposit ledgers and vouchers, you state that you wish to continue to keep the vouchers on the second floor; that you believe the fire hazard is not great because of the fire-resistant material placed each night over the receptacles in which the vouchers are stored; that the vouchers are microfilmed each week, so that the maximum destruction would be vouchers for six business days; and that the daily moving of the vouchers to a fire-proof vault would involve expense and effort out of proportion to whatever risk may be involved. As such vouchers will have been posted to clients' deposit ledgers (which are stored overnight in the new vault or other fire-proof vaults) and the vouchers are to be microfilmed weekly, no objection will be made to the arrangement. However, it is suggested that consideration be given to the desirability of microfilming the vouchers on a daily basis as an added precaution.

Approved unanimously, with
a copy to the Federal Reserve Bank
of New York.

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Letter to the Presidents of all Federal Reserve Banks reading as follows:

This refers to the Board's letter of April 16 regarding the availability of System summaries of reports on member bank borrowings from Federal Reserve Banks, and inquiring whether the Reserve Banks had any objection to figures for individual districts being included and transmitted to all Reserve Banks.

Inasmuch as the Reserve Banks have no objections and have requested copies of the summaries, two copies of the summaries prepared up to the present time are enclosed, weekly for central reserve and reserve city banks and semi-monthly for country banks.

Hereafter, two copies of each summary, except in those instances where a larger number was requested, will be mailed regularly to the officer who signed the request. Requests for changes in the number of copies, or in the person addressed, should be forwarded to the Board's Division of Administrative Services.

One of the Reserve Banks suggested that information be included regarding the borrowings in the form of rediscounts of customers' paper and on collateral other than United States Government obligations. These data are not being added to the summaries at this time because such borrowings have been infrequent. None has been reported at central reserve city banks nor at reserve city banks in nine of the districts. For other reserve city banks, the reports for the first five weeks of the year included one bank each week borrowing on collateral other than United States Government securities; in only two of the weeks did the amounts exceed a daily average of \$1 million. In the weeks ended March 29 and April 4, a bank was reported as borrowing substantially on such collateral.

For country banks, one or two were reported as borrowing on collateral other than U. S. Government securities in four of the seven semi-monthly reserve computation periods. Only one bank has been reported as borrowing in the form of rediscounts of customers' paper; its borrowings occurred in

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three of the semi-monthly periods. Both types of borrowing by country banks have been nominal in amount.

Approved unanimously.

Attention was called to the fact that the Federal Reserve Bank of Chicago had sent to all banks in its District copies of the press release issued by the Board on May 10, 1956, following enactment of the Bank Holding Company Act of 1956. It was suggested that a telegram reading as follows be sent to the other Federal Reserve Banks:

One Federal Reserve Bank has sent to all banks in its district copies of the press release issued by the Board on May 10 following approval of Bank Holding Company Act of 1956. If you have not already done so you may wish to consider taking similar action in your district.

Approved unanimously.

It was suggested that the Board authorize an advance of \$1,200 to Governor Robertson against the expenses of his forthcoming trip to Europe which was approved by the Board on March 13, 1956.

This suggestion was approved unanimously.

The meeting then adjourned.

Governor Balderston today approved on behalf of the Board memoranda from appropriate individuals recommending actions with respect to the Board's staff as follows:

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Appointments, effective upon the
respective dates of assuming duties

| <u>Name and title</u> | <u>Division</u> | <u>Basic annual salary</u> |
|---|-----------------------------|----------------------------|
| Harold Leonard Emerson, Personnel Technician | Personnel Administration | \$5,845 |
| Beverly Ann Brookman, Clerk-Stenographer <u>1/</u> | Personnel Administration | 3,415 |
| Sylvia Faye Parker, Clerk-Stenographer <u>1/</u> | Personnel Administration | 3,415 |

Salary increase, effective May 20, 1956

Josephine M. Spicer, Secretary, Division of Research and Statistics,
from \$3,755 to \$3,940 per annum.

Acceptance of resignations

Nellie-Mae Robinson, Clerk-Stenographer, Division of Research and
Statistics, effective May 4, 1956.

M. Hassler Rhudy, Clerk, Division of International Finance, effec-
tive June 2, 1956.

Secretary's Note: The Bureau of
the Budget having indicated that it
would have no objection, the follow-
ing letter was sent today over the
signature of Chairman Martin to the
Honorable J. W. Fulbright, Chairman
of the Committee on Banking and Cur-
rency, United States Senate, this
being the same letter that was sent
to the Budget Bureau for comment on
April 16, 1956:

The Board of Governors of the Federal Reserve System
respectfully recommends that the provisions of section 25
of the Federal Reserve Act relating to branches of national

1/ Appointments pursuant to the Board's action of April 24, 1956, relat-
ing to the recruitment of stenographic and typing personnel.

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banks in foreign countries be amended to improve the usefulness of such foreign branches. For the consideration of your Committee there is attached a draft of a bill which would accomplish this purpose, together with a memorandum discussing the matter.

As indicated in the memorandum, business methods and operating conditions in foreign countries often differ considerably from those in this country. The banks in foreign countries are often subject to few if any of the rules that apply to national banks in the United States. However, foreign branches of national banks are now subject abroad to most of the laws and regulations that apply to national banks at home. In order to enable foreign branches of national banks to operate more effectively in the foreign countries where they do business, the powers of such foreign branches should be adjusted more realistically to the conditions existing in foreign countries. To that end, it is suggested that the Board of Governors of the Federal Reserve System, whose approval is necessary under the law for the establishment of such branches, be permitted to authorize such branches to exercise such further powers as may be usual in connection with the business of banking in the place where the foreign branch is located. The draft legislation attached for your consideration would accomplish this result while also providing suitable safeguards to assure that such foreign branches would not engage in such businesses as investment banking or manufacturing.

A similar letter is being sent to the Chairman of the Committee on Banking and Currency of the House of Representatives.

The Budget Bureau advises that it has no objection to the submission of this proposal.


Secretary