Minutes for May 25, 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
Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, May 25, 1956. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Vest, General Counsel
Mr. Sloan, Director, Division of Examinations
Mr. Goodman, Assistant Director, Division of Examinations

Mr. Howard Sheperd, Chairman of the Board, The First National City Bank of New York, and Chairman of the Board, International Banking Corporation

Mr. Henry Harfield, Attorney

Messrs. Sheperd and Harfield were present at the invitation of the Board to discuss a proposed plan under which The First National City Bank would transfer to trustees the stock of International Banking Corporation, a corporation operating under an agreement with the Board pursuant to section 25 of the Federal Reserve Act, and International Banking Corporation would sell its banking business to an Edge Act corporation which would be organized by the national bank. The invitation to meet with the Board was extended following a preliminary discussion of the proposed plan at the meeting of the Board on May 2, 1956.
In his opening remarks, Mr. Sheperd discussed the current movement of population and businesses to the suburban areas around New York City and indicated that the purchase of stock of The County Trust Company, a member bank in White Plains, was motivated by a desire to do whatever was necessary to protect the position of First National City Bank and its shareholders. He said that when a question was raised by the Board of Governors regarding the holding of shares in the trust company by International Banking Corporation further study was given to the matter and the management of the national bank concluded that the best course would be to dispose of the stock of International Banking Corporation. This decision, he stated, was reached only with considerable reluctance because of the long history of International Banking Corporation as a vehicle for carrying out foreign operations for First National City Bank. He went on to say that under the proposed spin-off plan, it was possible that the national bank might lose control of International Banking Corporation over a period of time, since there were no strings to the trustee arrangement and it was the intention to have a market in the units of participation in the trust which would be issued to the national bank's shareholders. Nevertheless, no other feasible method had been discovered which would protect the national bank and its shareholders in the prevailing situation.

Mr. Sheperd then stated that a committee had been appointed by the New York State Legislature to study the whole question of permitting
New York City banks to establish branches in the outlying suburban areas. He said that if some of these areas, such as Nassau and Westchester Counties, were thrown open, the plan now proposed by First National City Bank probably would be discarded.

Chairman Martin stated that the Board was sympathetic to the problem, but that it also had to consider the legal aspects of the matter. He then asked Mr. Vest to outline the various points with which the Board was concerned.

Mr. Vest commented that the agreement entered into with the Board by International Banking Corporation contemplated that it would operate in the foreign field. Therefore, if the proposed transfer of its banking business took place there would appear to be no longer a reason for an agreement of that kind. Likewise, there would no longer be a need for the Board's approval of the purchase or holding by International Banking Corporation of the stock of any corporation, and that presumably would be a matter within the jurisdiction of the Comptroller of the Currency. However, for the plan to be carried out, it would be necessary to organize an Edge Act corporation, with the Board's approval, to which the foreign business of International Banking Corporation could be transferred. It appeared that the national bank would continue through the trust arrangement to have control of International Banking Corporation, at
least for the time being, and the Board would have agreed to the organization of the Edge Act corporation for the purpose of completing the plan.

Mr. Harfield raised a question whether it was accurate to say that the national bank would retain control of International Banking Corporation. The national bank, of course, would hope that the shareholders would maintain trustees favorable to the bank, but this would not necessarily be the case. He conceded that at the beginning there would be a community of interests and that according to the trust agreement International Banking Corporation would fully utilize its powers in the best interests of the national bank. Nevertheless, he said, any tangible benefits of the spin-off would run directly to the shareholders. The units of participation in the trust would be transferrable and the shareholders might sell them at their pleasure.

Mr. Vest inquired of Mr. Harfield whether he felt that any questions might arise under the Bank Holding Company Act of 1956 or under the holding company affiliate law. Mr. Harfield responded that he did not think so, and that certainly there appeared to be no problem at the present time. He said that if the plan were consummated, International Banking Corporation would not only dispose of its foreign banking business but would discontinue all of its banking business as such. He went on to say that at present the corporation holds the stock of only one
bank, that he did not think there would be any holding company affiliate problem, and that he saw no problem under the Bank Holding Company Act unless International Banking Corporation expanded its holdings of bank stocks so that it held 25 per cent or more of the stock of two or more banks.

In response to another question, Mr. Harfield said he thought that undoubtedly the proposed Edge Act corporation would be a "banking corporation" as defined in the proposed revision of the Board's Regulation K. He added the remark that in setting up the plan it was deemed appropriate to follow the provisions of the present regulation.

Regarding International Banking Corporation's stock in the Discount Corporation, Mr. Shepard said he did not contemplate that this stock would be held by the spun-off corporation. Mr. Harfield suggested that it could be held by the proposed Edge Act corporation, with the consent of the Board, and that probably it could not be held by the national bank.

Regarding the name of the proposed Edge Act corporation ("First National City Bank Overseas"), Mr. Vest inquired if thought had been given to the question of whether the use of that name might conflict with any policy of the Federal Government or any provisions of the law. Mr. Harfield responded that this matter had not been discussed in any detail with the Comptroller of the Currency. He suggested that the authority of the
Board under section 25(a) of the Federal Reserve Act to approve the name of an Edge Act corporation would seem to indicate that it had authority to approve the proposed name if it saw fit. It was his view that the name would be consistent with the spirit of the law, since the corporation would be a national corporation, and also a banking corporation as defined by Regulation K. Furthermore, it would be subject to the same supervision as foreign branches of national banks. It seemed to him that it would be in the interest of full disclosure to give the corporation such a name.

Regarding the matter of timing for putting the proposed plan into effect, Mr. Harfield stated that there were tax problems that required further clarification and that certain matters would have to be discussed with the Securities and Exchange Commission. In addition, there would be the mechanical problems of consummating the plan.

In response to a further question, Messrs. Sheperd and Harfield indicated that the name of International Banking Corporation probably would be changed following the spin-off. Mr. Harfield went on to say that he did not think International Banking Corporation would continue to operate its branch at Idlewild Airport.

Asked whether the foreign branches of First National City Bank perhaps would be converted to branches of the new Edge Act corporation, Mr. Sheperd said that possibly some of the branches would be incorporated
under the laws of the countries where they were located. He assumed that in such an event their stock would be held by the Edge Act corporation or the Bank of Monrovia. He then outlined how such a procedure would have advantages from the tax standpoint. In response to an inquiry, he said it would not be contemplated that branches of the national bank and the Edge Act corporation would be located in the same place.

Mr. Vest asked Messrs. Sheperd and Harfield whether they considered that the organization of the Edge Act corporation, with the transfer of assets from International Banking Corporation to that corporation was an integral part of the plan for disposing of the stock of The County Trust Company. In this connection he also asked whether there was any other method that might be considered which would not involve the transfer of foreign assets of International Banking Corporation to the Edge Act corporation.

Mr. Harfield replied that some thought was given to simply spinning off International Banking Corporation, perhaps leaving it as a State non-member bank. That idea, however, was discarded because it was desired to keep the overseas operations within the national bank's framework and away from the spun-off corporation. As to the possibility of spinning off the shares of The County Trust Company, Mr. Harfield said that if the whole plan was to be carried through effectively, it would be necessary to acquire and hold a minimum of perhaps 35 per cent of the bank's shares "to keep someone from taking it from under our nose."
In a further discussion, Governor Balderston observed that under the plan First National City would make a capital contribution to International Banking Corporation of about $15 million. He inquired what step would be contemplated if that amount was not adequate for the purposes of the Corporation. Mr. Sheperd responded that if the amount was inadequate more stock would be sold.

In conclusion, Mr. Sheperd said that he and his associates would work as diligently as they could to explore all of the angles of the proposed plan and that they hoped to come to some conclusion as soon as possible.

Messrs. Sheperd, Harfield, and Goodman then withdrew from the meeting.

In accordance with the understanding at the meeting on May 17, 1956, the following draft of letter to Mr. Sprague, Chairman of the Federal Reserve Bank of Boston, had been prepared for Chairman Martin's signature and had been circulated to the members of the Board:

Needless to say, we regret the situation that has arisen in the Weymouth branch matter. Apart from a vague intimation that the Board may have been improperly influenced - which it is unnecessary for us to deny - the main complaint seems to be that, since representatives of Quincy Trust Company were permitted to present its contentions before the Board, Granite Trust Company also should have been afforded an opportunity to voice its objections.

So far as I know, the Board has never refused anyone who has had a legitimate interest in a matter before the Board an opportunity to present his views. You may feel free to assure the directors of Granite Trust Company - as
Governor Robertson assured Mr. Martin, its President - that in the future, as heretofore, they can be certain of a hearing on any matter of concern to them if they will just let us know that they desire a hearing.

In hindsight it might appear that the proceeding could have been handled in a manner that would not have resulted in this unfortunate misunderstanding and irritation. At this point of time, however, the important thing is to be sure your board of directors understands that the course of events in this matter followed the procedure customarily observed over the years, and that the Board made a conscientious effort to obtain the facts and apply its best judgment.

I would hope that in the not too distant future a favorable opportunity may arise when you and I will be able to sit down together and review this entire matter.

Approved unanimously.

There were presented telegrams proposed to be sent to the following Federal Reserve Banks approving the establishment without change by those Banks on the dates indicated of the rates of discount and purchase in their existing schedules:

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Approved unanimously.

The following items, 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 the Board of Directors, Union Bank of Michigan, Grand Rapids, Michigan, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors approves the establishment of a branch by the Union Bank of Michigan, in the vicinity of the intersection of Michigan Street, N.E. and Fuller Avenue, N.E., Grand Rapids, Michigan, provided the branch is established within nine months from the date of this letter and approval of the State authorities is effective as of the date the branch is established.

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

Letter to The Honorable H. E. Cook, Chairman, Federal Deposit Insurance Corporation, Washington, D. C., reading as follows:

Reference is made to your letter of May 15, 1956, concerning the application of the Farmers State Bank of Madisonville, Texas, Madisonville, Texas, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

No corrective programs have been urged upon the bank or agreed to by it which, in the opinion of the Board of Governors, it would be considered desirable to incorporate as conditions to the continuance of deposit insurance.

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

Letter to The Honorable, The Comptroller of the Currency, Washington, D. C., reading as follows:

This refers to Mr. Jennings' letter of May 11, 1956, stating that your Office granted preliminary approvals on certain dates in 1953 and 1955 for the organization of each of three national banks, with an indication in each case that the majority stockholder would be a company which is a bank holding company. Mr. Jennings' letter further states
that your Office assumes that it is not necessary to obtain the Board's clearance with respect to these cases under the provisions of the Bank Holding Company Act of 1956.

As you know, it is unlawful under the Bank Holding Company Act, except with the prior approval of the Board, for any bank holding company to acquire direct or indirect ownership or control of any voting shares of any bank, with certain exceptions. Accordingly, if stock of any of the three national banks in question is "acquired", within the meaning of the Act, by a bank holding company after May 9, 1956, the effective date of the Act, the Board's prior approval of the transaction would be necessary under the provisions of the Act; on the other hand, if the stock was acquired prior to the effective date of the Act, the Board's approval would, of course, not be necessary.

Approved unanimously.

Telegram to Mr. Fulton, President, Federal Reserve Bank of Cleveland, reading as follows:

Board interposes no objection to completion of the interior of the 9th and 10th floors of the addition to the Pittsburgh Branch building at a cost of approximately $93,000, as outlined in your letter of April 20, 1956, provided the work can be done within the original authorization of approximately $4,525,000 for the entire program as outlined in your letter of July 29, 1955.

Approved unanimously.

The members of the staff then withdrew and the Board went into executive session.

The Secretary later was informed by the Vice Chairman that during the executive session Governor Mills was asked to be responsible, with the assistance of Messrs. Leonard and Vest of the Board's staff, for exploring a matter discussed during the executive
session. A memorandum on this matter has been placed in the confidential files of the Board.

The Secretary also was informed by the Vice Chairman that during the executive session the Board approved salaries for Charles Molony, Special Assistant to the Board, and J. E. Kelleher, Assistant Director, Division of Administrative Services, at the rates of $14,250 and $11,250, respectively, effective June 3, 1956.

The meeting then adjourned.

Secretary's Note: Governor Balderston today approved on behalf of the Board the following letter to Mr. Diercks, Vice President, Federal Reserve Bank of Chicago:

In accordance with the request contained in your letter of May 22, 1956, the Board approves the designation of Donald G. Brownell as a special assistant examiner for the Federal Reserve Bank of Chicago. Please advise as to the date upon which the designation is made effective.

It is understood that Mr. Brownell will liquidate his indebtedness to The Citizens First National Bank of Storm Lake, Storm Lake, Iowa, prior to his employment by the Federal Reserve Bank of Chicago.