

Minutes for June 21, 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>M</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, June 21, 1956. The Board met in the Board Room at 11:00 a.m.

PRESENT: Mr. Martin, Chairman
 Mr. Szymczak
 Mr. Vardaman
 Mr. Mills 1/
 Mr. Robertson
 Mr. Shepardson

Mr. Carpenter, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Vest, General Counsel
 Mr. Cherry, Legislative Counsel

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:

Memorandum dated June 18, 1956, from Mr. Sloan, Director, Division of Examinations, recommending that authority be given to arrange a reception on June 21 and a luncheon on June 29, both in the staff dining room, in connection with the twelfth session of the School for Assistant Examiners of the Inter-Agency Bank Examination School.

Approved unanimously.

Letter to Mr. J. W. Shands, President, Atlantic Trust Company, Jacksonville, Florida, reading as follows:

Reference is made to your letter of May 25, 1956, in which you ask for our opinion as to whether or not it will be necessary for Atlantic Trust Company to obtain the approval of the Board of Governors prior to completion of acquisition by Atlantic Trust Company of voting stock of Lake Forest Atlantic Bank.

1/ Withdrew from meeting at point indicated in minutes.

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It is our understanding that several months prior to December 1955 negotiations were undertaken with the Comptroller of the State of Florida for the organization of a new bank and that an amended formal application for the incorporation of Lake Forest Atlantic Bank to be located in a northern suburb of the City of Jacksonville, Florida, was filed in December 1955. In such application the Atlantic Trust Company subscribed for 24,300 shares of the total number of 25,000 shares of stock provided for in the application. The certificate of incorporation for Lake Forest Atlantic Bank was issued dated February 1, 1956, with an original capitalization of \$250,000. The organization meeting was held shortly after February 1, 1956, and a building is being constructed. It is anticipated that the new bank will be ready to commence business before November 30 of this year. The certificates for shares of stock have not been issued, but prior to May 1, 1956, the Atlantic Trust Company paid \$20,000, as funds were required, to apply upon the subscription, and you advise that the Atlantic Trust Company is under legal obligation to pay the balance of the subscription. It is our understanding that the laws of the State of Florida create such legal obligation on subscribers to original stock issues.

Based upon the above facts and understandings, it is our opinion that ownership or control of the shares of stock of Lake Forest Atlantic Bank by Atlantic Trust Company should be considered as acquired as of the effective date of a valid and legally enforceable subscription contract or agreement and that under such circumstances the stock was acquired prior to the enactment of the Bank Holding Company Act of 1956, and, therefore, the Board of Governors is of the opinion that its approval, as provided for in that Act, would not be required.

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

There had been sent to the members of the Board copies of a draft of a letter to the Bureau of the Budget, prepared in response to

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the Bureau's request for comment on the enrolled enactment of H. R. 9285, a bill to amend section 14(b) of the Federal Reserve Act to extend until June 30, 1958, the present authority of the Federal Reserve Banks to purchase Government obligations directly from the United States.

Governor Shepardson stated that he would like to suggest certain changes in the final paragraph of the proposed letter and distributed copies of an alternative draft reflecting his suggestions.

There followed a discussion of the necessity for going further in a letter of this kind than to indicate the Board's position with respect to the proposed legislation. It was pointed out that in this case Chairman Martin had testified before the House Banking and Currency Committee concerning the bill but that there had been no occasion for an expression of views to the Bureau of the Budget. It was suggested, therefore, that in this instance there might be more reason for a brief explanatory comment than in a case where the Board's views previously had been stated in a letter to the Budget Bureau.

In view of these comments, it was agreed that a letter in the general form of the one submitted to the Board for consideration would be appropriate. There was also agreement that the language of the alternative draft submitted by Governor Shepardson was preferable to that of the original draft.

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Accordingly, unanimous approval was given to a letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, reading as follows:

This is in response to your communication of June 19, 1956, enclosing a facsimile of the enrolled enactment of H. R. 9285, a bill to amend section 14(b) of the Federal Reserve Act, as amended, and inquiring whether there is any objection to the approval of the bill by the President.

The bill would extend until June 30, 1958, the present authority of the Federal Reserve Banks to purchase Government obligations directly from the United States. Under existing law this authority will terminate on June 30, 1956.

The use of this authority by the Federal Reserve enables the Treasury to avoid creating unnecessary financial strains that would otherwise occur if it had to draw heavily on its accounts during periods immediately preceding tax payment dates. Temporary Treasury borrowing at such times, followed by prompt repayment from the proceeds of tax payments provides a smooth operating mechanism, without the abrupt money market fluctuations that would otherwise occur, and thus is helpful in the conduct of Federal Reserve policy. Use of this procedure is reported, as required by law, each year in detail in the Board's annual report. The Board, therefore, recommends that the bill be approved by the President.

Mr. Cherry stated that when Assistant Attorney General Stanley N. Barnes testified recently before the Subcommittee on Banking of the Senate Banking and Currency Committee concerning S. 3911, the bank merger bill favored by the Board, he said that although the Department of Justice was opposed to the bill in its present form, the Department

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would be agreeable to a bill giving the Federal banking agencies responsibility for approval of banking mergers if such a bill provided that there would remain in the Department of Justice authority to move against any bank merger in court if it felt that the circumstances warranted. Mr. Cherry went on to say that yesterday Counsel for the Subcommittee called on the telephone to say that he thought it would strengthen the hand of the Subcommittee if it could have the views of the three Federal banking agencies on the proposal made by Mr. Barnes.

Governor Robertson said that this morning he talked with Mr. Jennings, Deputy Comptroller of the Currency, who indicated that the Comptroller's Office contemplated writing a brief letter setting forth views on Mr. Barnes' testimony. He understood that a position would be taken adverse to the proposal. It was his tentative opinion, Governor Robertson said, that a letter need not be sent by the Board. However, he had not had an opportunity to read carefully the testimony before the Subcommittee and at the moment he had no firm views on the matter.

Mr. Vest stated that after reading Mr. Barnes' testimony it was his view that the sending of any letter from the Board would only tend to confuse the issue, particularly since the proposal made by Mr. Barnes was vague and therefore difficult to interpret on several points. He brought out that the Board had testified several times on bank merger legislation within the past year and had sent letters on the subject

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to Congressional committees and to the Bureau of the Budget, so that its views were on record. Furthermore, at one time last year the Board took a position in favor of a legislative proposal similar to the one which Mr. Barnes now appeared to be suggesting. In those circumstances it would be difficult for the Board to send a letter taking a position against the current proposal, and if it did not take such a position a cleavage might arise between the Board and the other Federal banking agencies.

Following further discussion, during which Governor Robertson indicated that the statement made by Mr. Vest tended to confirm his opinion that no action need be taken, it was agreed unanimously that the Board should send no communication to the Senate Subcommittee in the absence of a formal request.

Governor Robertson referred to the discussion at the meeting on June 19, 1956, concerning the proposed purchase of an Alvac Model 800 electronic computer and stated that, after having read thoroughly the memorandum on the subject which was prepared by the staff and which formed the basis for discussion at the meeting on June 7, 1956, he was inclined to doubt the feasibility of proceeding in the manner agreed upon at the meeting on June 19; that is, to specify the computer that would best suit the Board's requirements and ask for bids on such a machine.

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In a discussion which ensued, Governor Vardaman summarized a conversation which he had with Mr. Young, Director of the Division of Research and Statistics, at which time he (Governor Vardaman) suggested, as an alternative to inviting sealed bids, the possibility of communicating with from three to five companies engaged in producing electronic computers and inviting them to discuss the matter.

Governor Shepardson stated that, according to his understanding, the decision to purchase the Alvac Model 800 machine would represent, at least in part, the result of conferences between the Board's staff and a number of manufacturers' representatives, and that in some respects the Alvac machine would be a custom model. He also said that apparently only three available computers were of the general type which would meet the Board's requirements. In the circumstances, it occurred to him that the Board might need to consider only those companies producing machines within the area in which the Board was interested. If there was correspondence with those three companies, he said, the record would show that the Board had contacted those concerns producing machines within the general area appropriate to the Board's needs. He suggested that it would not be necessary to furnish the companies detailed specifications, a procedure which might make it impossible for more than one company to bid.

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At this point Governor Mills was called from the meeting. Mr. Cherry also withdrew at this point and Mr. Hexter, Assistant General Counsel, entered the room.

At the request of the Board, Mr. Vest and Mr. Hexter made statements indicating the desirability of establishing a satisfactory record in a transaction of this kind but pointing out the difficulties involved in drawing up specifications which it would be appropriate to submit to various manufacturers, or even preparing a suitable letter to such manufacturers inviting offers on the basis of general requirements. Mr. Hexter also discussed information which he had received informally regarding the approach taken by other Government agencies in arranging purchases of this kind of machinery. In response to a question, he stated his understanding that specifications for the Alvac Model 800 computer were given to the Board in confidence by the manufacturer.

Further discussion emphasized the thoroughness of the investigation made by members of the Board's staff into the question of acquiring an electronic computer, along with the fact that a delay beyond the end of July in placing an order for the Alvac computer apparently would give rise to the possibility of a change in the quoted price.

After members of the Board had expressed themselves in favor of an approach such as that suggested by Governor Shepardson, Chairman Martin commented that the staff memorandum seemed to him sufficient to answer

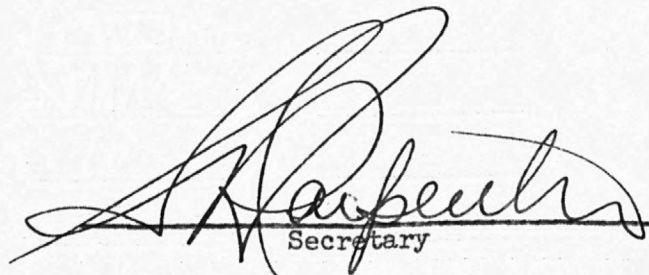
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nearly any question which might arise regarding the investigation of the computer question. He then suggested that Mr. Hexter be requested to consult with Governor Shepardson with a view to working out a procedure along the lines of the latter's proposal, with the understanding that whatever procedure was decided upon by Governor Shepardson and Mr. Hexter would be agreeable to the Board.

There was unanimous agreement with Chairman Martin's suggestion.

The meeting then adjourned.



Secretary