Minutes for July 19, 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 proposed to place in the record of policy actions required to be kept under the provisions of Section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below.

Page 5 Adoption of Regulation Y, Bank Holding Companies.

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	
Gov. Szymczak		x
Gov. Vardaman	x	
Gov. Mills	x	
Gov. Robertson		x
Gov. Balderston	x	
Gov. Shepardson	x	

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, July 19, 1956. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Vardaman 1/
Mr. Mills
Mr. Shepardson

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Vest, General Counsel
Mr. Sloan, Director, Division of Examinations
Mr. Shay, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of Examinations

Mr. Lamphere, Assistant General Counsel of the Federal Reserve Bank of Chicago currently assisting the Board in connection with bank holding company matters, also was present.

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. George A. Guerdan, Vice President and Cashier, The First National City Bank of New York, New York, New York, reading as follows:

> This refers to your letter of June 26, 1956, enclosing a photostat of a letter dated June 21, 1956, from Fiscal Assistant Secretary of the Treasury W. T. Heffelfinger to Vice President H. Harold Whitman of your bank, relative to

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1/ Withdrew from meeting and later reentered at points indicated in minutes.

the request of the Treasury Department that your bank establish a mobile banking unit at Komaki Air Force Base on a five-day-a-week basis. It is understood that the proposed unit will be an adjunct to your branch at Nagoya, Japan.

The Board of Governors will interpose no objection to The First National City Bank of New York furnishing the mobile banking facilities as described which, on the basis of the services proposed to be rendered, will not be considered as a branch by the Board.

It will be appreciated if you will advise the Board of Governors in writing, through the Federal Reserve Bank of New York, as to the date that the mobile banking facilities are placed in operation.

Approved unanimously, for transmittal through the Federal Reserve Bank of New York, with a copy to the Comptroller of the Currency.

Letter to Mr. Denmark, Vice President, Federal Reserve Bank of Atlanta, reading as follows:

In accordance with the recommendation contained in your letter of July 9, 1956, the Board of Governors extends to November 20, 1956, the time within which Commerce Union Bank, Nashville, Tennessee, may establish a branch at 4405 Harding Road in Davidson County outside the limits of the city of Nashville, under the approval given by the Board in its letter of February 20, 1956. Please advise the bank accordingly.

Approved unanimously.

Letter to the Board of Directors, The Commercial Savings Bank, Adrian, Michigan, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors hereby

gives its written consent under the provisions of Section 18(c) of the Federal Deposit Insurance Act to the consolidation of The Addison State Savings Bank, Addison, Michigan, with The Commercial Savings Bank, Adrian, Michigan, and approves the establishment by the consolidated bank of a branch at the present location of The Addison State Savings Bank in Addison, Michigan, provided the consolidation is carried out substantially in accordance with the proposed consolidation agreement submitted to the Reserve Bank by the Banking Department of the State of Michigan, and the consolidation and establishment of the branch are effected within six months from the date of this letter.

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

Letter to Mr. Scanlon, Chief Examiner, Federal Reserve Bank of Chicago, reading as follows:

Reference is made to your letter of July 10, 1956, regarding the request of the Central Bank, Grand Rapids, Michigan, for an extension of time in which to establish a branch at the southeast corner of State Street and Lafayette Avenue in Grand Rapids.

It appears that new plans had to be drafted for the building in which the branch is to be located and that it cannot be opened for business within the time limit prescribed by the Board. Accordingly the Board concurs in your recommendation and extends to December 31, 1956, the time within which the Central Bank may open the above described branch.

Approved unanimously.

Letter to the Board of Directors, New Harmony National Bank, New Harmony, Indiana, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates,

assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Indiana, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers which the New Harmony National Bank is now authorized to exercise will be forwarded to you in due course.

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

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

Under the Bank Holding Company Act of 1956, this Board, in passing upon any application for the Board's approval of certain transactions under that Act, is required to give notice to you if the applicant company or any bank the voting shares or assets of which are sought to be acquired is a national banking association and to allow 30 days within which your views and recommendations may be submitted.

In accordance with this requirement of the law, you are advised that Northwest Bancorporation, Minneapolis, Minnesota, a bank holding company, has made application to this Board pursuant to the Bank Holding Company Act of 1956 for the prior approval by the Board of the acquisition of 1,450 shares of the capital stock of Airport Northwestern National Bank of Minneapolis, Minneapolis, Minnesota. There is enclosed for your information a copy of the application.

It will be appreciated if you will advise the Board in writing of your views and recommendations with respect to this application.

The date of receipt of this letter by your office must be made a part of the Board's records with respect to the application. Therefore, it will be appreciated if the enclosed copy of the letter is signed and returned with the date of receipt indicated thereon.

Approved unanimously.

Pursuant to action of the Board on May 24, 1956, there was published in the Federal Register on May 29, 1956, a draft of proposed Regulation Y prepared pursuant to the provisions of the Bank Holding Company Act of 1956, with an invitation for the submission of views and comments not later than June 25, 1956. With a memorandum dated July 18, 1956, copies of which had been sent to the members of the Board prior to this meeting, Mr. Vest submitted a revised draft of a proposed Regulation Y reflecting consideration of the suggestions received following publication in the Federal Register. The memorandum discussed the suggestions and the changes made in the draft of regulation. It also stated that the Bureau of the Budget had taken the position that the proposed regulation should be submitted to the Bureau for approval of the reporting provisions.

The memorandum suggested (1) that the draft of Regulation Y be submitted to the Budget Bureau, (2) that the regulation be adopted as of the date of receipt of Bureau approval, and (3) that the regulation then be transmitted to the Federal Register for publication.

At the request of the Board, Mr. Vest discussed the principal changes between the draft of regulation published in the Federal Register and the form of regulation now submitted to the Board. He also reviewed certain of the suggestions which were not adopted and stated the reasons why it was considered to be inadvisable to accept them. His comments were based on his memorandum of July 18 and were supplemented by a statement by Mr. Lamphere.

It was brought out that in section 7 of the proposed regulation, relating to hearings and proceedings, a new provision had been inserted stating that notice of any hearings required by the Bank Holding Company Act would be published in the Federal Register a reasonable time in advance of the date of the hearing so that all interested parties would have an opportunity to testify if they wished. Messrs. Vest and Lamphere stated that a number of alternatives had been considered, but that the proposed procedure seemed to be the only feasible method of assuring that proper notice was given to interested parties.

In response to a question why the staff did not favor acceptance of a suggestion that special provisions be included which would make exemptions for the acquisition of bank stock by bank holding companies through stock dividends or the exercise of rights, Mr. Vest said that the matter had been considered at some length, that the relative rights

of shareholders could conceivably be changed in some circumstances, that the Internal Revenue Service has rather complicated rules pertaining to situations in which stock dividends will be regarded as taxable, and that in all the circumstances it seemed preferable to handle such matters on a case-by-case basis, at least until such time as experience might indicate the desirability of making some change in the regulation.

Further discussion concerned technical provisions of the proposed regulation and their relationship to provisions of the Bank Holding Company Act.

At the conclusion of the discussion, agreement was expressed with the recommendations contained in Mr. Vest's memorandum and Regulation Y, Bank Holding Companies, was adopted by unanimous vote in the following form, effective as of the date of receipt of advice of Budget Bureau approval of the reporting provisions, with the understanding that the regulation would be printed and appropriate distribution made:

REGULATION Y

BANK HOLDING COMPANIES

Effective 1956

The reporting requirements of this regulation have been approved by the Bureau of the Budget in accordance with the Federal Reports Act of 1942.

SECTION 1. AUTHORITY AND SCOPE

This regulation is issued pursuant to the Bank Holding Company Act of 1956, the provisions of which are set forth

in the Appendix to this regulation. Provisions relating to holding company affiliates, as defined in section 2(c) of the Banking Act of 1933, are contained in the Board's Regulation P. 1/

SECTION 2. DEFINITIONS

(a) Bank Holding Company. - Subject to the exceptions stated in subsection (b) of this section, the term "bank holding company" means any company -

(1) which directly or indirectly owns, controls, or holds with power to vote either

(i) 25 per centum or more of the voting shares of each of two or more banks, or

(ii) 25 per centum or more of the voting shares of any other company which is or becomes a bank holding company; or

(2) which controls in any manner the election of a majority of the directors of each of two or more banks; or

(3) for the benefit of whose shareholders or members 25 per centum or more of the voting shares of each of two or more banks or of a bank holding company is held by trustees; or

(4) which is a successor to any company that falls within (1), (2), or (3) above, and any such successor shall be deemed to be a bank holding company from the date as of which its predecessor company became a bank holding company.

1/ The Bank Holding Company Act of 1956 and this Regulation Y are in addition to, and do not take the place of, provisions of other laws, such as section 5144 of the Revised Statutes, and the Board's Regulation P thereunder, which relate to "holding company affiliates" as distinguished from "bank holding companies."

(b) Exceptions from Definition of "Bank Holding Company". - No company shall be considered a bank holding company -

(1) if it is a bank and it would otherwise be a bank holding company only by virtue of its ownership or control of shares in a fiduciary capacity, provided such shares are not held for the benefit of the shareholders of such bank; or

(2) if (i) it is registered under the Investment Company Act of 1940 and was so registered prior to May 15, 1955, or is affiliated with any such registered company in such manner as to constitute it an affiliated company within the meaning of that Act, and (ii) it does not directly own 25 per centum or more of the voting shares of each of two or more banks; or

(3) if it would otherwise be a bank holding company only by virtue of its ownership or control of shares acquired by it in connection with its underwriting of securities and if such shares are held only for such period of time as will permit the sale thereof upon a reasonable basis; or

(4) if it was formed for the sole purpose of participating in a proxy solicitation and would otherwise be a bank holding company only by virtue of its control of voting rights of shares acquired in the course of such solicitation; or

(5) if at least 80 per centum of its total assets are composed of holdings in the field of agriculture, and for this purpose the term "agriculture" includes farming in all its branches, including fruitgrowing, dairying, the raising of livestock, bees, fur-bearing animals, or poultry, forestry or lumbering operations, and the production of naval stores, and operations directly related thereto.

(c) Company. - The term "company" means any corporation (including a bank), business trust, association, or similar organization, except -

(1) any corporation the majority of the shares of which are owned by the United States or by any State;

(2) any corporation or community chest, fund, or foundation, organized and operated exclusively for religious, charitable, or educational purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual, and no substantial part of the activities of which is carrying on propaganda, or otherwise attempting to influence legislation; and

(3) any partnership.

(d) Bank. - The term "bank" means any national banking association or any State bank, savings bank, or trust company, but shall not include any organization operating under section 25(a) of the Federal Reserve Act, or any organization which does not do any business within the United States.

(e) State Member Bank.- The term "State member bank" means any State bank which is a member of the Federal Reserve System.

(f) District Bank. - The term "District bank" means any State bank organized or operating under the Code of Law for the District of Columbia.

(g) Subsidiary. - The term "subsidiary", as used with respect to a specified bank holding company, means -

(1) any company 25 per centum or more of whose voting shares (excluding shares owned by the United States or by any company wholly owned by the United States) is owned or controlled by such bank holding company;

(2) any company the election of a majority of whose directors is controlled in any manner by such bank holding company; or

(3) any company 25 per centum or more of whose voting shares is held by trustees for the benefit of the shareholders or members of such bank holding company.

(h) Successor. - The term "successor" includes any company which acquires directly or indirectly from a bank holding company shares of any bank, when and if the relationship between such company and such bank holding company is such that the transaction effects no substantial change in the control of such bank or beneficial ownership of such shares of such bank.

(i) Board. - The term "Board" means the Board of Governors of the Federal Reserve System.

(j) The Act. - The term "the Act" means the Bank Holding Company Act of 1956.

(k) Federal Reserve Bank. - The term "Federal Reserve Bank" as used herein with respect to the filing of registration statements, applications, requests, or reports by a bank holding company or other company shall mean the Federal Reserve Bank of the Federal Reserve district in which such company has its principal office.

SECTION 3. REGISTRATION

(a) Registration Statement. - On or before November 5, 1956, or within 180 days after it becomes a bank holding company, whichever is later, each bank holding company shall register with the Board by filing with the Federal Reserve Bank a registration statement, in duplicate, on forms prescribed by the Board. Upon timely application by any bank holding company and upon a satisfactory showing as to the need therefor, the Board in its discretion may extend the time prescribed herein for the filing of a registration statement by such bank holding company.

(b) Date of Registration. - The date of registration of a bank holding company shall be the date on which its registration statement is received by the Federal Reserve Bank with which such statement is required to be filed.

SECTION 4. ACQUISITION OF BANK SHARES OR ASSETS

(a) Transactions Requiring Board Approval. - Except with the prior approval of the Board or except as provided in subsection (b) of this section, -

(1) no action shall be taken which will result in any company becoming a bank holding company;

(2) no bank holding company shall acquire direct or indirect ownership or control of any voting shares of any bank;

(3) no bank holding company which is not a bank and no nonbanking subsidiary of a bank holding company shall acquire all or substantially all of the assets of a bank; and

(4) no bank holding company shall merge or consolidate with any other bank holding company.

(b) Excepted Transactions. - Prior approval by the Board is not required with respect to any of the following transactions:

(1) The acquisition by a bank holding company of direct or indirect ownership or control of any voting shares of any bank if, after such acquisition, such company will not directly or indirectly own or control more than 5 per centum of the voting shares of such bank;

(2) The acquisition by a bank holding company of additional shares in a bank in which such bank holding company owned or controlled a majority of the voting shares immediately prior to such acquisition; or

(3) The acquisition by a bank (including a bank which is a bank holding company or a subsidiary of a bank holding company) of the voting shares of any bank, if -

(A) such shares are acquired in good faith in a fiduciary capacity and are not held for the benefit of the shareholders of the acquiring bank, or

(B) such shares are acquired in the regular course of securing or collecting a debt previously

contracted in good faith, provided that any shares acquired after the date of the Act in securing or collecting any such previously contracted debt shall be disposed of within a period of two years from the date on which they were acquired.

(c) Applications Which Will Not Be Approved. - No application will be approved by the Board if such approval would permit a bank holding company or any subsidiary thereof to acquire, directly or indirectly, any voting shares of, interest in, or all or substantially all of the assets of any bank which was not a subsidiary of the bank holding company on the date of enactment of the Act and which is located outside the State in which such bank holding company maintains its principal office and place of business or in which it conducts its principal operations, unless the acquisition of such shares or assets of a State bank by an out-of-State bank holding company is specifically authorized by the statute laws of the State in which such bank is located, by language to that effect and not merely by implication.

(d) Submission of Applications. - Application for approval by the Board of any transaction requiring such approval under subsection (a) of this section shall be filed, in triplicate, with the Federal Reserve Bank. Any such application shall be filed not less than 60 days before the date on which it is proposed that the transaction requiring approval be consummated. 2/ Upon timely request and upon a satisfactory showing as to the need therefor, the Board in its discretion may accept an application although submitted within such period of 60 days. A separate application shall be filed with respect to each bank the voting shares or assets of which are sought to be acquired.

2/ In some cases it may not be possible for the Board to act upon an application within such period of 60 days and this requirement should not be regarded as suggesting that the Board will act upon all applications within that period of time, although every effort will be made to expedite such action.

(e) Procedure on Applications. - A Federal Reserve Bank receiving an application under this section will forward two copies thereof to the Board. If either the applicant or the bank the voting shares or assets of which are sought to be acquired is a national bank or a District bank, the Board will transmit a copy of the application to the Comptroller of the Currency. If either the applicant or the bank the voting shares or assets of which are sought to be acquired is a State bank, the Board will transmit a copy of the application to the appropriate supervisory authority of the State in which such bank is located.

(f) Hearings on Applications. - In any case in which the Board receives written advice of disapproval of the application from the Comptroller of the Currency or the appropriate State supervisory authority, as the case may be, within 30 days from the date of receipt of the application by the notified authority, the Board will so notify the applicant in writing, directing the applicant's attention to the provisions of section 3(b) of the Act. Within three days after the date of the sending of such notice to the applicant, the Board will notify in writing the applicant and the Comptroller of the Currency or the appropriate State supervisory authority, as the case may be, of the date fixed by the Board for the commencement of a hearing on the application and of the place and time at which such hearing will be held. Any such hearing will be commenced not less than ten days nor more than thirty days after the date on which the Board sent the applicant notice of the disapproval of the Comptroller of the Currency or the appropriate State supervisory authority.

(g) Action on Applications. - In any case in which a hearing is held in accordance with subsection (f) of this section, the Board, after the conclusion of such hearing, will by order grant or deny the application on the basis of the record made at such hearing. In all other cases, the Board will by order grant or deny the application after receipt by it of advice that the Comptroller of the Currency or the appropriate State supervisory authority, as the case may be, does not disapprove the application, or, if no such advice is received, after the expiration of thirty days from the date of receipt of the copy of the application by the Comptroller of the Currency or such State authority.

(h) Factors Affecting Action. - In acting upon any application the Board, as required by the Act, will consider the following factors:

(1) The financial history and condition of the applicant and the bank or banks concerned;

(2) The prospects of the applicant and the bank or banks concerned;

(3) The character of the management of the applicant and the bank or banks concerned;

(4) The convenience, needs, and welfare of the communities and the area concerned; and

(5) Whether or not the effect of the proposed transaction for which approval is desired would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

SECTION 5. INTERESTS IN NONBANKING ORGANIZATIONS

(a) Period Allowed for Divestment. - No bank holding company, except as provided in section 4(c) of the Act, the provisions of which are set forth in the Appendix to this Regulation, shall (1) after the date of enactment of the Act acquire direct or indirect ownership or control of any voting shares of any company which is not a bank, or (2) after two years from the date of enactment of the Act or from the date as of which it becomes a bank holding company, whichever is later, retain direct or indirect ownership or control of any voting shares of any company which is not a bank or a bank holding company, or engage in any business other than that of banking or of managing or controlling banks or of furnishing services to or performing services for any bank of which it owns or controls 25 per centum or more of the voting shares. Upon timely request and upon a satisfactory showing of the need therefor, the Board in its discretion may extend the

two-year period referred to in the preceding sentence, except that, as provided by the Act, no such extension of time may be approved by the Board for more than one year at a time or for any period beyond a date five years after the date of enactment of the Act or five years after the date as of which the company became a bank holding company, whichever is later.

(b) Shares of Financial, Fiduciary, or Insurance Companies. - Any bank holding company which is of the opinion that a company all the activities of which are of a financial, fiduciary, or insurance nature is so closely related to the business of banking or of managing or controlling banks, as conducted by such bank holding company or its banking subsidiaries, as to be a proper incident thereto and as to make it unnecessary for the prohibitions of section 4 of the Act to apply in order to carry out the purposes of the Act, may request the Board for such a determination pursuant to section 4(c)(6) of the Act. Any such request shall be filed in duplicate with the Federal Reserve Bank. After receipt of any such request, the Board will notify the bank holding company of the place and time fixed for a hearing on the requested determination; and, after the conclusion of such hearing and on the basis of the record made at the hearing, the Board will by order make or decline to make the requested determination.

(c) Tax Certifications. - Any bank holding company desiring a certification by the Board for purposes of the provisions of Part VIII of Subchapter O of Chapter 1 of the Internal Revenue Code of 1954, as amended by the Act, may file an application in duplicate for such certification with the Federal Reserve Bank; and any such application will be forwarded by the Federal Reserve Bank to the Board. Any application for a certification under subsections (a), (b), or (c) of section 1101 of said Part VIII shall be filed not less than sixty days in advance of the distribution, or exchange and distribution, with respect to which such certification is desired. 3/ Upon timely request by any bank

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3/ In some cases it may not be possible for the Board to act upon an application within such period of 60 days and this requirement should not be regarded as suggesting that the Board will act upon all applications within that period of time, although every effort will be made to expedite such action.

holding company and upon a satisfactory showing as to the need therefor, the Board in its discretion may accept an application for any such certification although submitted within such 60-day period.

On the basis of an application under this subsection, the Board will either issue a certification or by order deny the application. A duplicate original of each certification will be transmitted to the Internal Revenue Service of the Treasury Department.

SECTION 6. BORROWING BY BANK HOLDING COMPANY OR ITS SUBSIDIARIES

It is unlawful under the Act, with certain exceptions, for any bank which is a subsidiary of a bank holding company to invest in the capital stock, bonds, debentures, or other obligations of such company or of any other subsidiary of such company; to accept as collateral for an advance to any person the capital stock, bonds, debentures, or other obligations of such company or any such other subsidiary; to purchase securities, other assets, or obligations under repurchase agreement from such company or any such other subsidiary; or to make any loan, discount, or extension of credit to such company or any such other subsidiary. For statutory provisions on this subject, see section 6 of the Act, set forth in the Appendix to this regulation.

SECTION 7. HEARINGS AND PROCEEDINGS

(a) Hearings. - In addition to hearings required by the Act (see sections 4(f) and 5(b) of this regulation), a hearing may be ordered by the Board in its discretion with respect to any application or request under this regulation, either upon its own motion or upon the request of any party in interest, if the Board deems such hearing to be in the interests of the parties or the public interest. Notice of any hearing required by the Act will be published in the Federal Register a reasonable time in advance of the date fixed for the hearing; and any hearings so required will ordinarily be held before trial examiners appointed in accordance with the provisions of the Administrative Procedure Act. All hearings

under this regulation will be conducted in accordance with the Board's "Rules of Practice for Formal Hearings."

(b) Record of Proceedings. - The record in any proceeding under this regulation upon which an order of the Board is based shall consist of the application or request filed with the Board in connection with such proceeding; any views and recommendations received by the Board from the Comptroller of the Currency or the appropriate State supervisory authority pursuant to section 3(b) of the Act; the transcript of any hearing held with respect to such application or request and any report and recommendation made by the trial examiner or hearing officer before whom such hearing was held; any other document or writing relied upon by the Board in making disposition of the matter; and any order of the Board granting or denying the application or request.

(c) Parties. - A party to any proceeding under this regulation shall include any person or agency named or admitted as a party or any person who has filed a request in writing to be admitted as a party and who is entitled as of right to be admitted.

SECTION 8. REPORTS AND EXAMINATIONS

Each bank holding company shall furnish to the Board in a form to be prescribed by the Board a report of its operations for its fiscal year ending in 1956 or the fiscal year in which it became a bank holding company, whichever is later, and for each fiscal year thereafter until it ceases to be a bank holding company. Each such annual report shall be filed, in duplicate, with the Federal Reserve Bank. Each bank holding company shall furnish to the Board such additional information at such times as the Board may require. The Board may examine any bank holding company or any of its subsidiaries and the cost of any such examination shall be assessed against and paid by such bank holding company. As far as possible the Board will use reports of examinations made by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, or the appropriate State bank supervisory authority for the purposes of this section.

SECTION 9. STATUTORY PENALTIES

Under the Act, any company which willfully violates any provision of the Act or any regulation or order issued by the Board pursuant thereto shall upon conviction be fined not more than $1,000 for each day during which the violation continues; and any individual who willfully participates in a violation of any provision of the Act shall upon conviction be fined not more than $10,000 or imprisoned not more than one year, or both. Every officer, director, agent, and employee of a bank holding company is subject under the Act to the same penalties for false entries in any book, report, or statement of such bank holding company as are applicable to officers, directors, agents, and employees of member banks of the Federal Reserve System for false entries in any books, reports, or statements of member banks under section 1005 of Title 18, U. S. Code.

Mr. Lamphere then withdrew from the meeting and Mr. Leonard, Director, Division of Bank Operations, entered the room.

There had been sent to the members of the Board copies of a memorandum from Mr. Leonard dated July 16, 1956, discussing a proposal of the Federal Reserve Bank of Kansas City to call for bids for the construction of an addition to and alterations of the Denver Branch building, on the basis of detailed plans and specifications which had been submitted to the Board. The memorandum stated that the calling for bids had been recommended by the branch directors and approved by the head office directors, subject to the approval of the Board of Governors. It also stated that Mr. Persina, Consulting Architect to the Board, had reviewed the plans and specifications and recommended their acceptance.

Inasmuch as the total cost of the program was now estimated at approximately $1,632,000, about $372,000 more than the estimate submitted with the preliminary plans in 1954, the memorandum included a comparison of the estimates and a statement of the reasons given for the increase. It was recommended that a telegram reading as follows be sent to Mr. Leedy, President of the Kansas City Reserve Bank:

> Board interposes no objection to your Bank's calling for bids for the construction of an addition to and alterations of the Denver Branch building on the basis of the plans and specifications referred to in your letter of June 25.
>
> In accordance with customary procedure, a summary report of the bids should be forwarded to the Board together with the recommendation of the Bank as to acceptance.
>
> In view of the increased costs, the excess in "Building Proper" costs for the Denver Branch program over the amount tentatively earmarked in the original allocation may have to be taken into consideration, as indicated in the Board's letter of February 28, 1955, in connection with any program for the Oklahoma City Branch.

Following comments by Mr. Leonard, the telegram was approved unanimously.

Mr. Leonard then withdrew from the meeting.

Consideration was given to a memorandum from Mr. Vest dated July 17, 1956, submitting a draft of order proposed to be issued in the matter of The Continental Bank and Trust Company, Salt Lake City, Utah. The order would provide for making public the formal hearing in the matter scheduled to commence on September 10, 1956, pursuant to the

request contained in a letter from Mr. Walter E. Cosgriff, President of the bank, dated July 5, 1956. The order would also instruct the Board's Secretary to make the docket in the proceeding available to the public.

Governor Balderston distributed copies of a revised draft of order, stating that it was intended (1) to separate the reference to Rule III(b) of the Board's Rules of Practice for Formal Hearings from the reference to the exception under which the Board may order that hearings of this nature be made public, and (2) to make it very clear that the hearing was being made public at the specific request of the Respondent.

It was also suggested that the proposed order be modified to eliminate reference to the reason for Rule III(b) and simply state that an exception was being made at the request of the Respondent. The purpose of this suggestion was to avoid the implication that the Board originally had ordered that the hearing be private because it felt that a public hearing would have a harmful impact on the bank.

Following a discussion, during which Governor Vardaman was called from the meeting, unanimous approval was given to an order in the following form, with the understanding that copies would be sent to Respondent and Respondent's Counsel, to Special Counsel for

the Board, and to the Federal Reserve Bank of San Francisco:

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

In the Matter of:

THE CONTINENTAL BANK AND TRUST COMPANY
Salt Lake City 10, Utah

STATEMENT

The Continental Bank and Trust Company, Respondent herein, has filed with the Board its written request that the formal hearing scheduled to commence in the above-entitled matter on September 10, 1956, be made public.

The Board's Rules of Practice for Formal Hearings (Rule III(b)) provide that all formal hearings before the Board shall be private with the exception noted below. Accordingly, in its "Notice of Institution of Proceedings and of Hearing Therein" to The Continental Bank and Trust Company the Board ordered that the hearing before the trial examiner be private unless the Respondent requested that the hearing be made public, in which event such request would be granted. The aforesaid Notice also authorized all reports of examinations of Respondent made by examiners of the Federal Reserve Bank of San Francisco to be disclosed and introduced as evidence, provided neither the names nor the identities of persons indebted to Respondent shall be in any way disclosed or introduced in evidence.

The exception to Rule III(b) referred to above is that, on the written request of Respondent or counsel to the Board, the Board when not prohibited by law may order the hearing to be public. Since the Respondent has so requested, the Board has issued the following Order:

ORDER

In view of Respondent's request and subject to the above-mentioned limitation that the names or identities of persons indebted to Respondent shall not in any way be

disclosed or introduced in evidence, Respondent's request that the hearing be public is granted, and the Board's Secretary is instructed to make the docket in this proceeding available to the public.

By order of the Board of Governors.

(signed) S. R. Carpenter
S. R. Carpenter, Secretary.

(SEAL)

Washington, D. C.
July 19, 1956

Reference was made to the following draft of letter to Mr. Tiebout, Vice President and General Counsel, Federal Reserve Bank of New York, which had been circulated to the members of the Board:

This refers to your letters of June 15 and June 20, 1956, enclosing letters from Manufacturers Trust Company and Irving Trust Company, both of New York City, regarding compliance of several forms of time deposit contracts with the requirements of the Board's Regulation Q.

The first form of certificate with respect to which question is raised is that described in the letter from Manufacturers Trust Company to your Bank dated June 1, 1956. It is understood that that form would provide for a maturity six months after the date of deposit with an option on the part of the depositor to withdraw part or all of the funds, without notice, on the 30th day after the date of deposit, or on the 90th day after the date of deposit, and that funds withdrawn on the 30th day would bear interest at a rate of 1 per cent, funds withdrawn on the 90th day would bear interest at a rate of 2 per cent, and funds withdrawn at the end of six months would bear interest at a rate of 2-1/2 per cent.

In an interpretation published in 1953 Bulletin 721, the Board expressed the view that if a certificate permits withdrawal either at a specified maturity or prior to such time after a specified period of notice, the maximum rate of interest will depend upon which of such withdrawal privileges is elected by the depositor and the maximum rate applicable under the regulation in the circumstances of the withdrawal privilege so elected. For example, a certificate providing for payment five years after date with interest at 2-1/2 per cent but providing also for earlier payment after 90 days' written notice with interest at 2 per cent would comply with the regulation. Such a certificate has a single fixed maturity but provides that an earlier maturity may be fixed at the option of the depositor with a resulting reduction in the rate of interest payable.

By contrast, the certificate described in Manufacturers Trust Company's letter would have several fixed maturities the first of which would be 30 days after the date of deposit. Under such a certificate, the deposit when established is payable 30 days after date. The Supplement to Regulation Q provides that no member bank shall pay interest at a rate in excess of 1 per cent per annum on a time deposit having a maturity date less than 90 days after the date of deposit or payable upon written notice of less than 90 days. Consequently, the 2 per cent and 2-1/2 per cent rates of interest provided for under the form of time certificate described in Manufacturers Trust Company's letter of June 1, 1956, would be in excess of the maximum rates prescribed by Regulation Q.

The letter received by your Bank from Irving Trust Company dated June 11, 1956, describes two different types of contracts. The first would be a six months' time deposit with interest at a rate of 2-1/4 per cent, but with an alternate fixed maturity of 90 days after date with interest at 2 per cent. The second form of contract would represent a deposit payable 11 months after date with interest at a rate of 2-3/8 per cent but with alternate fixed maturities of 90 days, four months, and five months, with interest at 2 per cent, six, seven, and eight months, with interest at 2-1/4 per cent, and nine and ten months with interest at 2-3/8 per cent. The views above expressed with respect to

the form of contract described in Manufacturers Trust Company's letter of June 1 are applicable also to the forms of contracts described in Irving Trust Company's letter of June 11.

Manufacturers Trust Company's letter of June 13, 1956, describes a form of time deposit contract having a fixed maturity dated six months after the date of deposit but with an option on the part of the depositor to withdraw a part or all of the funds either on 90 days' advance notice at a rate of 2 per cent, or on 30 days' advance notice at a rate of 1 per cent if withdrawn during the first 90 days or at a rate of 2 per cent if withdrawn after the 90th day following the date of deposit. Such a contract providing for payment of interest at a rate of 2 per cent on a deposit withdrawn after 30 days' notice would not comply with Regulation Q.

In connection with all of the forms of deposit contracts described above, it is important to bear in mind that the maximum permissible interest rate does not depend upon the length of time the deposit is left with the bank. Where the deposit contract provides a fixed maturity but with an option on the part of the depositor to withdraw after a prescribed period of notice, the maturity is that named in the certificate unless and until the depositor exercises his option to change that maturity, and in that event the maximum interest rate payable will be the rate applicable under the regulation with respect to the period of such notice of withdrawal given by the depositor. Where the certificate itself names alternate fixed maturities, as in three of the certificates discussed above, without provision for withdrawal after notice upon the option of the depositor, the certificate must be regarded as maturing at the earliest fixed maturity and, if not withdrawn at that time or at any subsequent fixed maturity, as being automatically renewed until the date of the next following fixed maturity; and the maximum interest rate payable upon withdrawal at any fixed maturity would be the maximum rate applicable under the regulation to the period from the previous automatic renewal to the date of such withdrawal.

It will be appreciated if you will transmit copies of this letter to the Manufacturers Trust Company and Irving Trust Company.

Following a discussion during which reference was made to the requirement of the law that the Board maintain some differential in the maximum rates of interest payable on time certificates of deposit of different maturities, the letter was approved unanimously.

Messrs. Thurston and Shay then withdrew from the meeting.

In a letter dated April 17, 1956, the Board advised The Bank of Tokyo, Ltd. of Japan that for reasons stated the Board proposed to rescind the determination made in 1953 that the bank was not engaged as a business in holding the stock of, or managing or controlling banks, banking associations, savings banks or trust companies. The Board's letter stated, however, that before taking such action it would be willing to consider favorably a reaffirmation of the 1953 determination upon receipt of satisfactory assurance that The Bank of Tokyo Trust Company of New York would not receive deposits from the public in the United States, including Japanese nationals in this country. In a reply dated June 1, 1956, The Bank of Tokyo, Ltd. of Japan failed to give assurance that the trust company would not receive deposits from Japanese nationals in this country. In a memorandum dated July 9, 1956, which had been circulated to the members of the Board, Mr. Vest discussed the situation

and set forth alternative courses of action open to the Board, one of which would be to rescind the 1953 determination. The principal effect of such action would be that the Japanese bank would have to obtain a voting permit from the Board if it desired to vote its stock of The Bank of Tokyo of California, a member bank; or that the California bank might withdraw from membership in the System.

In a discussion, during which Messrs. Sloan and Vest made statements on the matter and during which Governor Vardaman rejoined the meeting, attention was given to the factual situation, alternative courses of action and the effect of each, and the Board's responsibilities under the law in matters of this kind.

At the conclusion of the discussion, it was voted unanimously to rescind the existing determination and to send an appropriate letter to The Bank of Tokyo, Ltd. of Japan.

Governor Mills reported a telephone call from the Comptroller of the Currency regarding certain branch applications filed by national banks in the State of Arizona which were being held in abeyance pending the outcome of the factual investigation into the competitive aspects of the banking situation in Arizona currently being made by the Federal Reserve Bank of San Francisco pursuant to the Board's letter of January 12, 1956. It appeared that in view of the fact that certain branch

applications submitted by insured nonmember banks in Arizona were being acted upon by the Federal Deposit Insurance Corporation, the Comptroller desired to review the situation informally with members of the Board and its staff at the Board's relocation site during the forthcoming Operation Alert 1956.

After summarizing various considerations involved, Governor Mills indicated that such a discussion might lead to a mutually acceptable understanding, particularly with respect to applications for de novo branches.

There was unanimous agreement that the Comptroller's request for informal discussion of the matter should be granted, Governor Vardaman noting in this connection that, as he had stated at the time, he was not in agreement with the Board's position in respect to the current factual investigation of the banking situation in Arizona.

Messrs. Sloan and Hostrup then withdrew from the meeting.

Reference was made to a memorandum from Mr. Vest dated July 16, 1956, which had been circulated to the members of the Board, recommending the appointment of Thomas J. O'Connell as Assistant General Counsel, with salary at the rate of $12,000 per annum, effective when he reports for duty.

It was stated that Mr. O'Connell had been introduced to all of the members of the Board except Governors Mills and Robertson, and

Governor Mills indicated that he would be willing to approve the appointment on the basis of information provided in the memorandum.

Thereupon, the appointment was approved unanimously, subject to clearance with Governor Robertson.

Chairman Martin read a letter which he had received from Senator Robertson of Virginia regarding a study of the banking and credit needs of the country to be made later this year by a committee of the Senate and requesting the Board's cooperation with the staff of the committee in preparing for the study.

Chairman Martin suggested that the letter be referred to Governor Balderston for an appropriate response to the Senator giving assurance of the Board's cooperation. He also suggested that the Legal Division review suggestions for changes in the banking law which had previously been discussed by the Board in order that it might be determined whether it would be appropriate to transmit certain suggestions of that kind to the committee for its consideration.

There was unanimous agreement with the suggested procedure.

The meeting then adjourned.

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

Memorandum dated July 12, 1956, from Mr. Marget, Director, Division of International Finance, recommending the appointment of Katherine P. Hichborn as Secretary in that Division, with basic salary at the rate of $3,805 per annum, effective the date she assumes her duties.

Telegram to Mr. MacDonald, Chief Examiner, Federal Reserve Bank of Boston, reading as follows:

> Reurtel July 18, 1956, Board approves designation of Richard Oliver Fischer as a special assistant examiner for the Federal Reserve Bank of Boston.

Letter to Mr. Wiltse, Vice President, Federal Reserve Bank of New York, reading as follows:

> In accordance with the request contained in your letter of July 16, 1956, the Board approves the designation of John S. Kozlowski as a special assistant examiner for the Federal Reserve Bank of New York.

Letter to Mr. Stetzelberger, Vice President, Federal Reserve Bank of Cleveland, reading as follows:

> In accordance with the request contained in your letter of July 16, 1956, the Board approves the appointment of Anthony Moho as an assistant examiner for the Federal Reserve Bank of Cleveland. Please advise as to the date upon which the appointment is made effective.

Letter to Mr. Morrill, Vice President, Federal Reserve Bank of San Francisco, reading as follows:

> In accordance with the request contained in your letter of July 12, 1956, the Board approves the designation of the following as special assistant examiners for the Federal Reserve Bank of San Francisco:

M. J. Buckley	D. B. Atkins	A. R. Szevery
J. R. Pace	W. Bobzien	J. F. Danaher
C. P. Ellsworth	W. H. Lewis	E. T. Opdenweyer
R. E. Newton	S. L. Brown	G. F. Turman, Jr.
L. J. Piano	R. E. Heydenreich	

The Board also approves the designation of the following as special assistant examiners for the purpose of participating in the examination of State member banks only:

J. J. Kunz, Jr.	L. E. Reilly
E. L. White	H. A. Erne

The authorizations heretofore given your bank to designate the following as special assistant examiners are hereby canceled:

D. B. Atkins	S. L. Brown	J. F. Danaher
W. Bobzien	R. E. Heydenreich	E. T. Opdenweyer
W. H. Lewis	A. R. Szevery	G. F. Turman, Jr.
L. E. Reilly	H. A. Erne	

Appropriate notations have been made in our records of the names to be deleted from the list of special assistant examiners.

Secretary