

Minutes for July 20, 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	<input checked="" type="checkbox"/> <u>M</u>	<u>                    </u>
Gov. Szymczak	<u>                    </u>	<input checked="" type="checkbox"/> <u>                    </u>
Gov. Vardaman	<u>                    </u>	<input checked="" type="checkbox"/> <u>                    </u>
Gov. Mills	<input checked="" type="checkbox"/> <u>                    </u>	<u>                    </u>
Gov. Robertson	<u>                    </u>	<input checked="" type="checkbox"/> <u>R</u>
Gov. Balderston	<input checked="" type="checkbox"/> <u>CCB.</u>	<u>                    </u>
Gov. Shepardson	<input checked="" type="checkbox"/> <u>                    </u>	<u>                    </u>

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, July 20, 1956. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman  
 Mr. Balderston, Vice Chairman  
 Mr. Mills  
 Mr. Shepherdson

Mr. Carpenter, Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Vest, General Counsel  
 Mr. Hexter, Assistant General 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:

Letter to Mr. Irons, President, Federal Reserve Bank of Dallas, reading as follows:

The Board of Governors approves payment of salaries to the following officers of the Federal Reserve Bank of Dallas for the periods shown and at the rates indicated, which are the rates fixed by your Board of Directors as set forth in your letter of July 12, 1956.

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
<u>For the period from today through December 31, 1956</u>		
James L. Cauthen	Assistant Cashier, Head Office	\$ 9,300
<u>For the period from September 1 through December 31, 1956</u>		
Charls E. Walker	Economic Adviser, Head Office	\$11,000

Approved unanimously.

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

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Reference is made to your letter of July 11, 1956, transmitting the request of the Clinton Trust Company, New York, N. Y., for an extension of time within which to establish a branch in the Port Authority Bus Terminal Building at 625 Eighth Avenue, New York City.

After considering the information which you have submitted the Board concurs in your recommendation and extends to February 1, 1957, the time within which the Clinton Trust Company may establish the above described branch, provided the approval of State authorities is effective as of the date the branch is established.

Approved unanimously.

Letter to Mr. Vergari, Vice President and General Counsel, Federal Reserve Bank of Philadelphia, reading as follows:

Your letter of June 28, 1956, presented two questions in connection with the possible application of the prohibition in section 8 of the Clayton Act to the interlocking relationships of Mr. R. Livingston Sullivan and Mr. John J. Sullivan, each of whom is serving as a director or as a director and officer of the Tradesmens Bank and Trust Company and also of the Finance Company of Pennsylvania, both of Philadelphia, Pennsylvania. Tradesmens Bank and Trust Company is a State member bank, and you indicate that, in your opinion, Finance Company of Pennsylvania is a "bank" for purposes of the Clayton Act.

It appears that the major aspect of the case is whether the prohibition in the statute might be inapplicable by virtue of paragraph (4) thereof which excepts interlocking relationships where more than 50 per cent of the common stock of one of the banks is owned directly or indirectly by persons who own directly or indirectly more than 50 per cent of the common stock of the other bank. A corresponding exception is contained in section 2(d)(4) of Regulation L.

Your letter relates that, in calculating the common ownership of the stock of the two institutions for the purpose of the above exception, the attorney for the Finance Company of Pennsylvania has included stock of Tradesmens Bank and Trust Company registered in the names of nominees for various trust



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companies administering individual trust estates, and stock of Finance Company of Pennsylvania registered in the name of the same group of nominees. You asked whether it is proper to so include the stock of the two institutions registered in the name of the nominees.

It is understood that the nominees in question are of the kind frequently used, especially by trustees, for the limited purpose of facilitating transfers of stock for the real owners thereof. On the basis of this understanding, it is the Board's view that the mere fact that certain shares of stock of Tradesmens Bank and Trust Company and of Finance Company of Pennsylvania are registered in the names of the same nominees would not serve as a proper basis for the inclusion of such shares in determining whether or not they are "owned" directly or indirectly by the same persons for the purposes of the exception in paragraph (4) of the statute and section 2(d)(4) of Regulation L. As you suggested, inclusion of stock for such purpose is to be determined on the basis of real ownership of stock in both institutions, and stock of one institution registered in the name of a nominee should not be counted for this purpose unless the real owner of such stock is also the real owner of stock in the other institution.

Your letter of June 28, 1956, also raised the question whether stock of Tradesmens Bank and Trust Company owned by Finance Company of Pennsylvania could be included in determining the application of the exception in paragraph (4) of the statute and section 2(d)(4) of the regulation, if a group of stockholders of Finance Company of Pennsylvania owning 50 per cent or more of the stock of that Company also own stock in Tradesmens Bank and Trust Company. However, your letter of July 3, 1956, indicated that it might not be necessary to have an answer to this second question, and that it would be agreeable to postpone consideration thereof pending your further review of the matter in the light of the Board's answer of the question involving the shares registered in the names of nominees.

Approved unanimously.

Letter to the Board of Directors, The Union Savings & Trust Company, Warren, Ohio, reading as follows:

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Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System approves the establishment of two branches, one at 1160 West Market Street, and the other at 2911 Youngstown Road, Warren, Ohio, by The Union Savings & Trust Company, Warren, Ohio, provided the branches are established within one year of the date of this letter and the approval of the State authorities is in effect as of the date the branches are established.

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

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

Reference is made to your letter of July 10, 1956, regarding the request of the California Bank, Los Angeles, California, for an extension of time within which to establish a branch in the general vicinity of Washington and Rosemead Boulevards, Los Angeles County, California.

After consideration of the information submitted, the Board concurs in your recommendation and extends until January 1, 1957, the time within which the California Bank, Los Angeles, California, may establish the branch at the aforementioned location as originally approved in the Board's letter of January 25, 1955, provided that the approval of the State banking authorities is in effect as of the date the branch is established.

Approved unanimously.

Letter to Mr. Peter H. Merlin, Gardner, Carton, Douglas, Roemer & Chilgren, Chicago, Illinois, reading as follows:

This refers to your letter of May 14, 1956, addressed to Mr. Hackley, requesting advice as to the reserve of readily marketable assets required of a

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holding company affiliate which has obtained a permit to vote the stock of a bank which is a member of the Federal Reserve System.

At the outset it should be understood that, with respect to bank stocks as to which there is no statutory liability imposed upon the holders, no reserve of readily marketable assets is required of a holding company affiliate until, subsequent to the issuance of a voting permit, the holding company's net earnings are over and above six per cent per annum on the book value of its own shares outstanding. The well-accepted meaning of book value in accounting terminology, and for this purpose, is the excess of assets over liabilities as reflected by the books of the company.

With respect to the valuation a holding company affiliate may place upon its investment in shares of a subsidiary bank, it is permissible for the holding company to carry such shares on its books at the company's proportionate interest in the amount of the excess of the subsidiary bank's assets over its liabilities, determined in a manner consistent with the reports of condition required to be submitted by the bank to its supervisory authority. The value thus determined represents the maximum permissible valuation for purposes of section 5144 of the Revised Statutes (U.S.C., title 12, section 61); it is also permissible for a holding company affiliate to carry shares of a subsidiary bank on the company's books at a lesser value consistent with applicable laws and generally-accepted accounting principles. In the case of investments in shares of banks which are not subsidiaries, there would be no objection to reflecting such investments on the books of the holding company at the date of its organization at amounts which represent fair values at that date, or at a lesser value consistent with applicable legal and accounting principles.

We are sending copies of your letter and this reply to the Federal Reserve Bank of Chicago.

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

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

Boston	July 16
Kansas City	July 18
New York	July 19
Philadelphia	July 19

Approved unanimously.

There had been sent to the members of the Board copies of a draft of letter proposed to be sent to the Bureau of the Budget in response to a request for the Board's views on enrolled bill H.R. 10285, to merge production credit corporations in Federal intermediate credit banks, to provide for retirement of Government capital in Federal intermediate credit banks, to provide supervision of production credit associations, and for other purposes. The proposed letter would refer to the Board's letter of January 5, 1956, to the Budget Bureau on a draft bill containing substantially the same provisions as H.R. 10285, in which the Board stated that the main provisions of the draft bill were not closely related to the work of the Federal Reserve System or the responsibilities of the Board and that the Board had no comments to offer concerning them. However, with regard to a section which would exempt debentures issued by the banks for cooperatives from the limitations and restrictions prescribed by section 5136 of the Revised Statutes with respect to the powers of national banks and State member



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banks to invest, underwrite, and deal in securities, it was stated in the January 5 letter to be the Board's position, from the bank supervisory standpoint, that there was insufficient justification for conferring exempt status on such debentures. The proposed letter would point out that the enrolled bill contained the same provisions in this respect as the draft bill, but it would state that if it should be concluded that the main provisions of the legislation were desirable the Board would not consider the amendment to section 5136 of sufficient importance to justify a recommendation that the President veto the measure.

In reviewing the matter Mr. Hexter commented that the Comptroller of the Currency indicated that he had no objection to the provision which would amend section 5136 with regard to debentures of the banks for cooperatives.

Mr. Vest stated that a representative of the Budget Bureau called on the telephone yesterday and inquired about the report on the enrolled bill. He said the Bureau representative stated that the provisions of the draft bill had been changed in regard to budgetary control over the Federal intermediate credit banks and that the bill no longer represented the Administration viewpoint. It appeared to Mr. Vest that the Budget Bureau was hopeful that some of the agencies would recommend that the bill not be approved. Mr. Vest said he responded that he did not know what the Board's



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position would be, but that he thought the Board's concern was with the provisions relating to the debentures of the banks for cooperatives rather than with the main features of the bill.

Governor Shepardson said it was his understanding that the bill was passed in a form which the Farm Credit Administration and various farm units around the country had been supporting, that the bill seemed to be in line with the policy of putting the farm credit organization on a farmer-owned basis, and that it was his own reaction that it would be a desirable move. The matter of budgetary control, he said, might be related to the question of what was to be done with the surplus of the intermediate credit banks. He understood that some elements of the Administration would prefer that the accumulated surplus revert to the Government.

Governor Mills stated that he would like to propose a revision of the proposed letter which he did not believe would conflict with the point of view expressed by Governor Shepardson. This change would call attention to the Board's previous position regarding the proposal to confer exempt status on debentures of the banks for cooperatives and would eliminate the statement that the inclusion of such a provision would not, in the Board's opinion, be of sufficient importance to justify a recommendation that the President veto the measure. In explaining his reasons for suggesting the change in language, he cited the reasons

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underlying the Board's position in connection with the draft bill and expressed doubt whether the Board should express itself in any way which might amount to endorsing a principle that it would be hard to retreat from in the event of similar proposals with respect to other types of securities, such as revenue bonds. The principle seemed to him to be of such fundamental importance that the Board would be justified in continuing its original position.

Following further discussion, during which it was pointed out that the language proposed by Governor Mills would not indicate that the Board was opposed to the bill as a whole, Governor Shepardson stated that he would not object to the suggested change.

Thereupon, 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 July 17, 1956, requesting the Board's views on an enrolled bill, H.R. 10285, "To merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide supervision of production credit associations; and for other purposes."

In its letter of January 5, 1956, the Board reported to the Bureau of the Budget on a draft bill containing substantially the same provisions as H.R. 10285, as approved by the Congress. In that report, the Board stated that the main provisions of the draft bill were not closely related to the work of the Federal Reserve System or the responsibilities of the Board of Governors and that the Board had no comments to offer with respect to them.

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In this same report, however, the Board specifically commented on section 201(c) which would exempt debentures issued by the banks for cooperatives from the limitations and restrictions prescribed by section 5136 of the Revised Statutes with respect to the powers of national banks and member banks to invest, underwrite, and deal in securities.

It is noted that the enrolled bill contains the same exemption provisions as did the draft bill concerning which the Board questioned the advisability, from the bank supervisory viewpoint, of conferring exempt status on such debentures.

There had been sent to the members of the Board copies of a letter which would request the views of the Federal Reserve Bank Presidents and the Federal Advisory Council concerning the eligibility for classification as a savings deposit under Regulation Q of a deposit evidenced by a form of savings certificate proposed to be issued by the Midland National Bank of Minneapolis. The proposed letter had been drafted as the result of an understanding at the meeting on July 18, 1956, following consideration of the matter at that meeting and at previous meetings of the Board.

Agreement having been expressed with certain changes suggested in the draft, unanimous approval was given to a letter to Mr. Leedy, Chairman of the Conference of Presidents of the Federal Reserve Banks, reading as follows, together with a similar letter to Mr. William J. Korsvik, Acting Secretary of the Federal Advisory Council:



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With its letter of July 16 the Board suggested that a question presented by a Federal Reserve Bank relating to interest rates on time deposits under Regulation Q be placed on the agenda for the next meeting of the Presidents' Conference. Another Federal Reserve Bank has now inquired whether a deposit evidenced by the attached "savings certificate" would be eligible for classification as a savings deposit under section 1(e) of Regulation Q, as amended, effective May 16, 1955. It is understood that the certificate would be used only for deposits of individuals and corporations, associations or other organizations "operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes and not operated for profit."

The Board of Governors has considered this problem from the standpoint of (1) whether the certificate meets the provision of the Regulation that the depositor is required or may at any time be required by the bank to give notice in writing of an intended withdrawal not less than 30 days before such withdrawal is made, (2) whether use of the certificate would tend to confuse the differences which Regulation Q seeks to preserve between "savings deposits" and "time deposits", (3) what distinctions should be maintained between savings and time deposits and whether a deposit which has a definite maturity should be classified as a savings deposit, (4) whether, notwithstanding its novel character and the new questions which the certificate raises, it should be regarded as being eligible for classification as a savings deposit, and (5) the pertinence of any increase allowed in the maximum permissible rates (or of a revision in the structure of such rates) of interest on time and savings deposits under Regulation Q to this particular problem.

Before reaching a decision on the question, the Board would be glad if it could be discussed at a meeting of the Presidents' Conference. Accordingly, it will be appreciated if you will put this additional subject on the agenda for the next meeting of the Presidents' Conference and the joint meeting of the Presidents and the Board.

The meeting then adjourned.



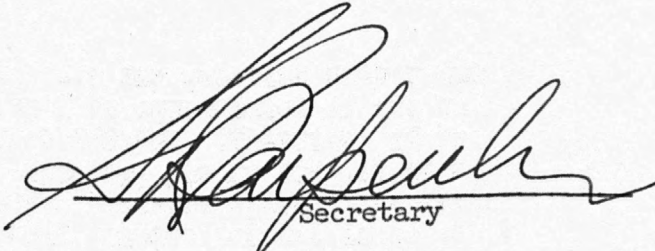
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Secretary's Note: On July 19, 1956,  
Governor Balderston approved the  
following items on behalf of the  
Board:

Memorandum dated July 16, 1956, from Mr. Carpenter, Secretary of the Board, recommending that the resignation of Katherine D. Ayers, Records Clerk in the Office of the Secretary, be accepted effective July 27, 1956.

Memorandum dated July 20, 1956, from Mr. Bethea, Director, Division of Administrative Services, recommending that the resignation of Martha F. Elder, Operator (Key Punch) in that Division, be accepted effective July 20, 1956.



Secretary