

Minutes for July 23, 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 _____              | _____                |
| Gov. Robertson  | x <u>R</u>           | _____                |
| Gov. Balderston | x <u>cab</u>         | _____                |
| Gov. Shepardson | x <u>cus</u>         | _____                |

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, July 23, 1956. The Board met in the Board Room at the Federal Reserve Bank of Richmond at 2:00 p.m.

PRESENT: Mr. Balderston, Vice Chairman  
Mr. Vardaman  
Mr. Mills  
Mr. Robertson  
Mr. Shepardson

Mr. Carpenter, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Vest, General Counsel  
Mr. Johnson, Controller, and Director,  
Division of Personnel Administration  
Mr. Solomon, Assistant General Counsel

Governor Mills referred to the Board's previous action in agreeing to receive at the Federal Reserve Building later this week a group of British bankers en route home after attending the International Banking Summer School at New Brunswick, New Jersey. It was his suggestion, on the basis of further conversation with representatives of the American Bankers Association, that the available members of the Board meet with the British bankers at 2:30 p.m. on Thursday, July 26, for informal discussion and a brief review of the economic situation by a member of the Board's research staff.

Governor Vardaman said that although he would have no objection to the proposed program in this particular instance, it was his view that in the public relations field the Board was identifying itself too much with the American Bankers Association. He indicated that he had in mind requesting a review of the amount of time devoted by the Board and members

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of its staff to visits from individuals and groups sponsored by the American Bankers Association. He expressed the opinion that it would be advisable for the Board to think in terms of building up contacts with other business and financial groups.

Governor Vardaman's comments having been noted, it was agreed that a program for the British bankers should be arranged along the lines suggested by Governor Mills.

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. Waage, Secretary, Federal Reserve Bank of New York, reading as follows:

Thank you for your letter of July 12, 1956, advising that Mr. John J. Clarke, Assistant General Counsel, has been granted a leave of absence with pay for a period of not to exceed two weeks, plus necessary travel time, to begin early in August. It is noted from your letter that, in response to a request from the Governor of the Banco Central de la Republica Dominicana, Mr. Clarke will go to Ciudad Trujillo where his services will be available in connection with the proposed establishment of a Clearing House. It is noted further that the official arrangements provide that the Banco Central will pay for the cost of transportation and maintenance of Mr. Clarke during his leave.

The Board of Governors interposes no objection to the arrangements with respect to Mr. Clarke as described in your letter.

Approved unanimously.

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Letter to Mr. William L. Kleitz, President, Guaranty Trust Company of New York, New York, New York, reading as follows:

With further reference to the Board's letters of October 7, 1955, and January 3, 1956, and your replies of October 26, 1955, and February 2, 1956, regarding the reports of examinations of your Brussels, Paris, and London branches made as of April 8, April 27, and May 14, 1955, respectively, Mr. Goodman, Assistant Director of the Board's Division of Examinations, has discussed certain of the matters in telephone conversations with Vice President and Comptroller Widmayer of your bank.

Although you do not maintain control accounts reflecting the aggregate contingent liability for foreign exchange futures bought and sold as a part of the general ledger records of these branches, it is understood that all of your foreign branches now maintain, either in the audit department or the foreign exchange department, controls in the local currency equivalent for foreign exchange futures bought and sold. Accordingly, no further question regarding the records maintained will be raised at this time.

With reference to the comment of the examiner, regarding the Paris Branch call report of condition as of December 31, 1954, that rediscounts should be reflected as direct liabilities and shown against Item 20, "Bills payable, rediscounts, and other liabilities for borrowed money," it is understood that as of December 31, 1955, the date of the last report, the Paris Branch had no rediscounts with the Bank of France for borrowed money. The examination report indicated on page 31, under "BORROWINGS," that the branch had rediscounts with the Bank of France continuously in 1954 and to date of examination on April 27, 1955. It has been learned that it would be the policy of your bank to show any rediscounts with the Bank of France for borrowed money as direct liabilities against Item 20 in call reports of condition submitted on Form F.R. 105.

With further reference to the examiner's comment regarding the practice of the Paris Branch in effecting collections of various items received for collection

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through the rediscount mechanism of the Bank of France because of its superior collection facilities, you have stated that, in view of submission of reports by the branch monthly, by customer, to the Bank of France on lines of credit and amounts outstanding where a total of Fr 5,000,000 (approximately \$14,285) or more is outstanding and the fact that the branch always stays within the limit of the line set for it by the Bank of France for the rediscount of acceptable paper, you do not believe that the situation calls for a special discussion with the Bank of France. On the basis of the information furnished, no objection will be made to the practice at this time. In this connection, it is understood that your bank would not regard the rediscounting of paper for the purpose of effecting collections as constituting borrowings as discussed above. Accordingly, where collection items are deposited with the Bank of France and immediate credit, with full recourse, is given to clients for the proceeds of such collections, the Board will not require that such items be included as direct liabilities in call reports of condition, provided such rediscounts with the Bank of France are made within approximately the minimum acceptable time period prescribed by the Bank of France.

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

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

The Board of Governors of the Federal Reserve System has considered the recommendation of the Management Committee of your Bank contained in your letter of July 13, 1956, and pursuant to the provisions of Section 19 of the Federal Reserve Act, grants permission to Long Point National Bank of Houston, Houston, Texas, to maintain the same reserves against deposits as are required to be maintained by banks outside of central reserve and reserve cities, effective as of May 19, 1956, the date of commencement of business by the subject bank.

Please advise the bank of the Board's action in this matter, calling its attention to the fact that such

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permission is subject to revocation by the Board of Governors of the Federal Reserve System.

Approved unanimously.

There had been circulated to the members of the Board a draft of letter to Mr. Robert C. Hall, Bache & Company, New York, New York, prepared in response to an inquiry as to whether section 30(b) of the Securities Exchange Act of 1934 should be held to exempt certain extensions of credit involving the Company's Canadian office from the Board's Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges. In view of the responsibilities of the Securities and Exchange Commission, the views of the Commission had been requested on the questions presented by Mr. Hall and it was proposed to enclose with the Board's reply a copy of a letter received from the Commission's Trading and Exchanges Division expressing the opinion that "Bache would be transacting a business in the United States in connection with such transactions and that the exemption provided by section 30(b) would be unavailable". The draft of letter to Mr. Hall would state that the Board saw no reason to differ with this view and was inclined to agree that the exemption should be considered to be unavailable.

In commenting on the matter Mr. Solomon said that it seemed questionable whether the Board would want to hold contrary to the views of the Securities and Exchange Commission in a matter with which the Commission is so vitally concerned. He felt, in other

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words, that although the matter was one on which opinions might differ the views of the Commission should carry a great deal of weight. In response to a question, he stated that the Commission had agreed informally to the proposed procedure of sending a copy of its letter to Bache & Company.

Governor Vardaman stated that although he had not gone into the matter in great detail it was his impression that the position proposed to be taken was the correct one. However, he had some doubt about the advisability of the suggested procedure when an inquiry had been made of the Board on a matter relating to one of the Board's regulations. Therefore, even though the Securities and Exchange Commission is the agency charged with enforcement of the Securities Exchange Act of 1934, he felt that it would be preferable for the Board to express its own opinion in response to the inquiry.

After consideration of the point raised by Governor Vardaman it was suggested that the reply be revised to express the view of the Board and state that the Securities and Exchange Commission was understood to be of the same opinion.

There being agreement with this suggestion, unanimous approval was given to a letter to Mr. Hall in the following form, with the understanding that copies would be sent to the Securities and Exchange Commission and to the Federal Reserve Bank of New York:

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This is with further reference to your letter of April 10, 1956 in which you inquire as to whether section 30(b) of the Securities Exchange Act of 1934 exempts from the Board's Regulation T certain extensions of credit in securities transactions involving your branch at Toronto, Canada. Your letter described four variations of such transactions.

In general, in the first such type of situation the entire transaction would be handled by mail or other means of communication directly between your Toronto branch and the customer in the United States. In the other three types of situations, an office of Bache & Company in the United States would participate in varying degrees in forwarding the order for securities to your Toronto branch, which would thereafter deal directly with the customer in the United States; and, in one of the latter situations, the domestic Bache office, in addition, would initiate transfer of any free credit balance that the customer might have with any of your offices in this country to the Toronto branch for application to the transaction.

Section 30(b) provides that the Securities Exchange Act of 1934 and regulations thereunder shall not apply to any person "insofar as he transacts a business in securities without the jurisdiction of the United States, unless he transacts such business in contravention of such rules and regulations as the (Securities and Exchange) Commission may prescribe as necessary or appropriate to prevent the evasion" of the Act. You ask in effect whether the kinds of transactions you describe would be entitled to this exemption stated in section 30(b).

Upon consideration of this matter, it is the opinion of the Board, and also understood to be the opinion of the Securities and Exchange Commission, that in each of the four types of situations described in your letter Bache & Company would be transacting a business in the United States in connection with such transactions and that the exemption provided by section 30(b) would be unavailable.

All of the members of the staff except Mr. Johnson then withdrew from the meeting.



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Thereafter the Secretary's Office was advised that during the meeting the following actions were taken:

The Board approved a recommendation from Mr. Johnson that security clearance be instituted for Billie Jo Hickman and Margaret Wolverton, of the Division of Personnel Administration, in connection with defense planning and that the position of Mr. Sprecher, Assistant Director of that Division, be declared sensitive and security clearance instituted.

The Board ratified action taken by Governor Balderston on July 20, 1956, granting interim security clearance to the following members of the Board's staff and to Mr. Clair Strathy, Vice President and Secretary of the Federal Reserve Bank of Richmond, for the purposes of Operation Alert 1956:

Wilson L. Hooff  
Ramsay Wood 1/  
J. Frank Holahan  
James B. Eckert  
Donald C. Miller  
Jerome W. Shay

The Board also granted interim security clearance for the following members of the staff for the duration of the current exercises at the Board's relocation site in connection with Operation Alert 1956:

Cornelia A. Bates  
Zoe Gratsias  
Doreen Dippre  
Jean Crosby  
Athens J. Messick

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1/ With the understanding that security clearance would be instituted for Messrs. Wood and Strathy.

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Esther Severud  
 Billie Jo Hickman  
 Margaret Wolverton

This action was taken with the understanding that with respect to Miss Hickman, the interim clearance would be effective until the completion of her current temporary assignment in Governor Vardaman's office.

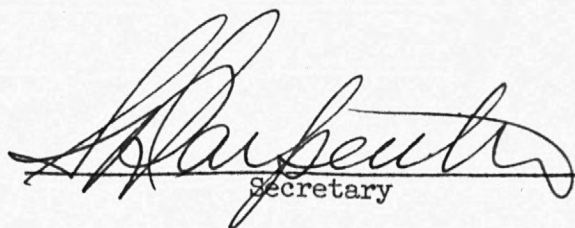
The meeting then adjourned.

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

Memorandum dated July 18, 1956, from Mr. Marget, Director, Division of International Finance, recommending the appointment of Robert Fleming Gemmill as Economist in that Division, with basic salary at the rate of \$7,035 per annum, effective the date he assumes his duties.

Memoranda from appropriate individuals concerned recommending that the basic annual salaries of the following members of the staff be increased in the amounts indicated, effective July 29, 1956:

| <u>Name and title</u>   | <u>Division</u>         | <u>Basic annual salary</u> |           |
|---|-------------------------|----------------------------|-----------|
|   |                         | <u>From</u>                | <u>To</u> |
| Barbara A. Huey,<br>Special Assistant<br>Federal Reserve Examiner | Examinations            | \$4,210                    | \$4,345   |
| Elizabeth P. Vanni,<br>Stenographer                               | Examinations            | 3,500                      | 3,585     |
| James T. Stewart,<br>Mail Clerk                                   | Administrative Services | 3,300                      | 3,385     |

  
 Secretary