

Minutes for July 27, 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>MS</u>
Gov. Vardaman	_____	x <u>(V)</u>
Gov. Mills	x _____	_____
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u>SP</u>	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, July 27, 1956. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Thurston, Assistant to the Board
 Mr. Vest, General Counsel
 Mr. Sloan, Director, Division of Examinations
 Mr. Marget, Director, Division of International Finance
 Mr. Solomon, Assistant General Counsel
 Mr. Cherry, Legislative Counsel
 Mr. Axilrod, Economist, Division of International Finance

The following draft of letter to the Board of Directors, Wachovia Bank and Trust Company, Winston-Salem, North Carolina, had been circulated to the members of the Board and was presented for consideration:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors of the Federal Reserve System approves the establishment of branches at the following locations in Durham, North Carolina, by Wachovia Bank and Trust Company, Winston-Salem, North Carolina,

130 W. Main Street.
 Angier and Driver Avenues.
 Roxboro Road and Maynard Avenue.
 Vickers Avenue and Jackson Street.
 9th and Perry Streets.

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provided, (1) the merger of Wachovia Bank and Trust Company with The Fidelity Bank is effected substantially in accordance with the agreement submitted to the Reserve Bank, (2) the merger and establishment of the branches are completed within six months from the date of this letter, and (3) the approval of the State authorities is in effect at the time the branches are established.

As a part of this transaction the Board of Governors also approves the establishment of a branch in the Liberty Warehouse Building, 600 Riggsbee Avenue, Durham, North Carolina, each year during the tobacco marketing season covering an approximate period of September through December, inclusive, with the understanding that this authorization is subject to cancellation upon reasonable notice prior to the beginning of such period in any year.

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

Reference was made to the following draft of letter for the signature of Vice Chairman Balderston to The Honorable A. Willis Robertson, Chairman of the Subcommittee on Banking of the Senate Committee on Banking and Currency, which had been circulated to the members of the Board prior to this meeting:

Mr. Cherry has informed me that he has made arrangements with Mr. Rogers to furnish him with two copies of the Federal Reserve Act and related statutes as requested in the memorandum attached to your letter of July 20, 1956.

As stated in my letter of July 20, the Board will be pleased to cooperate with you in any way it can in your committee's study of the Federal statutes governing financial institutions and credit and to that end will submit its recommendations as to desirable changes in the existing statutes by the first week in October as requested in the memorandum referred to above. It is noted that your committee plans to hold hearings on this matter during the second week in November.

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It is also noted that your committee regards this study as an excellent opportunity for each agency to make a comprehensive appraisal of its functions and the functions of the institutions under its jurisdiction and that you hope each agency will take full advantage of this opportunity. The Board will do everything it can within its field to carry out your wishes in this regard.

In a discussion of the proposed reply, attention was called to a memorandum prepared by the Legal Division in 1952, and discussed by the Board at that time, setting forth a number of suggestions for possible changes in the Federal statutes pertaining to the Federal Reserve System. Governor Robertson suggested that the Legal Division be requested to bring the memorandum up to date and, in addition, to review each section of the statutes applicable to the System for changes of a minor nature and include those items in the revised memorandum, with an explanation in each case of the reasons why it was felt the change should be made. His proposal contemplated that the work of the Legal Division would be undertaken as promptly as possible, with a view to reaching agreement on recommendations which might be transmitted to Senator Robertson's committee by the first of October.

Agreement having been expressed with the procedure suggested by Governor Robertson, unanimous approval was given to the letter to Senator Robertson.

Consideration then was given to the following draft of letter to Mr. Exter, Vice President of the Federal Reserve Bank of New York,

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which had been circulated to the members of the Board along with an explanatory memorandum from Mr. Marget dated July 24, 1956:

This will acknowledge your letter of July 20, 1956, regarding the opening in the books of your Bank of a dollar deposit account, a securities custody account, and a gold custody account for the International Finance Corporation. It is noted that **your** directors have authorized the opening of accounts for the International Finance Corporation.

The Board of Governors is entirely agreeable to the opening and maintenance of these accounts pursuant to Section 6 of the International Finance Corporation Act, and will appreciate being kept advised of any further developments in this matter.

Following comments by Mr. Marget on the functions of the International Finance Corporation and the nature of the duties that would be performed by the Federal Reserve Bank of New York, the letter to Mr. Exter was approved unanimously.

Messrs. Marget and Axilrod then withdrew from the meeting.

There had been distributed to the members of the Board copies of a memorandum from the Division of Bank Operations dated July 26, 1956, stating that net earnings after dividends of the Federal Reserve Banks for the second quarter of 1956 amounted to \$107,695,253 and recommending that the Board establish certain rates of interest on Federal Reserve notes in order that the Reserve Banks might credit to the Treasurer's General Account on July 31, 1956, amounts totaling \$96,925,761.43 and representing approximately 90 per cent of such net earnings. The

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rate per annum of interest for each Bank, the daily average of outstanding Federal Reserve notes in excess of gold certificates pledged with the Agent as collateral security, and the proposed interest payment were as follows:

	(1)	(2)	(3)
Boston	1.98909	\$968,443,582	\$4,802,609.63
New York	3.03178	3,295,459,010	24,909,334.56
Philadelphia	2.17630	1,124,979,889	6,103,965.20
Cleveland	2.24954	1,455,102,776	8,160,859.80
Richmond	1.87724	1,180,005,996	5,522,713.85
Atlanta	2.18684	861,330,406	4,696,078.15
Chicago	2.55824	2,951,353,803	18,823,964.20
St. Louis	1.80847	787,434,630	3,550,375.98
Minneapolis	2.11832	415,051,157	2,192,005.92
Kansas City	2.06985	778,818,646	4,019,053.08
Dallas	3.31540	441,467,306	3,649,076.83
San Francisco	3.39969	1,238,296,272	10,495,724.23

Following a discussion during which it was suggested that in the forthcoming review of suggestions for statutory changes which might be transmitted to Senator Robertson's committee, consideration be given to the possibility of a change in the basis for computing payments to the Treasury as interest on Federal Reserve notes, the recommendation contained in the memorandum from the Division of Bank Operations was approved unanimously.

At yesterday's meeting of the Board, it was understood that there would be prepared a revised draft of letter to the Comptroller of the Currency responding to his request for a recommendation with regard to an application to organize a national bank at Point Comfort,

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Texas. Accordingly, copies of the following draft of letter were distributed to the members of the Board before this meeting:

Reference is made to a letter from your office dated June 4, 1956, enclosing photostatic copies of an application to organize a national bank in Point Comfort, Texas, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application made by an examiner for the Federal Reserve Bank of Dallas indicates that the proposed capital structure of the bank would be adequate and that the proposed management would be satisfactory. The earnings prospects of the institution are unfavorable and it is reported that there is no evidence of widespread interest in or need for a bank at the proposed location. It appears that the application is somewhat premature. However, since there is no banking facility in Point Comfort and the applicants, who are financially able to do so, are willing to provide convenient banking services to the community, the Board of Governors is willing to recommend approval of the application. At the same time, it feels that there is far greater need for competition in Port Lavaca than there is for this banking facility in Point Comfort and, therefore, hopes that consideration will be given to the approval of the pending application for an additional bank in Port Lavaca before this application is acted upon.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office, if you so desire.

Approved unanimously.

Messrs. Vest, Sloan, and Solomon then withdrew from the meeting.

There were presented telegrams proposed to be sent to the following Federal Reserve Banks approving the establishment without change

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on the dates indicated of the rates of discount and purchase in their existing schedules:

Kansas City	July 21
Atlanta	July 23
St. Louis	July 23
San Francisco	July 25
New York	July 26
Cleveland	July 26
Richmond	July 26
Chicago	July 26
Dallas	July 26

Approved unanimously.

Receipt was reported of a telegram dated July 26, 1956, from the Federal Reserve Bank of Minneapolis stating that at a meeting that day the Bank's executive committee established, subject to the approval of the Board of Governors, a rate of 2-3/4 per cent (rather than 3 per cent) on discounts and advances under sections 13 and 13a of the Federal Reserve Act, along with other rates of discount and purchase appropriate to the 2-3/4 per cent rate.

The proposed rate change was discussed in the light of a letter dated July 13, 1956, from Mr. Perrin, Chairman of the Minneapolis Reserve Bank, to the Board in which Mr. Perrin commented on a difference of opinion regarding the 3 per cent rate within the Board of Directors of the Bank and set forth the principal arguments advanced on both sides of the question. Reference also was made to comments by Mr. Powell, President of the Reserve Bank, at the last meeting of the Federal Open Market Committee.

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Governor Mills recalled Mr. Powell's having stated that the directors representing the country banks of the District anticipated the need of those banks for Federal Reserve credit during the forthcoming crop-moving season and felt that the 3 per cent rate would be out of line with the economic background and the banking needs that would underlie the borrowing requirements.

Governor Robertson suggested that in view of the information at hand, including that contained in Mr. Perrin's letter, action on the part of the Board of Governors be deferred. He felt that the Reserve Bank should be advised that the Board was deferring action in view of the possible national implications of a change in the rate at this time and that the Bank should be asked to advise of the reasons on which the executive committee's action was based.

Governor Shepardson commented that the differences of opinion among the Minneapolis directors reported in Mr. Perrin's letter and the fact that the action on July 26 was taken by the executive committee rather than by the Board of Directors left some doubt as to the extent to which the action of the executive committee reflected the views of the Board of Directors as a whole.

Governor Mills cited as another factor deserving consideration the observation by Chairman Martin at the last meeting of the Open

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Market Committee, with reference to the Treasury financing then in process, that any change in the discount rate structure at such a time would be confusing to the market. Governor Mills brought out that, with indications that the Treasury might make another financing announcement shortly, the remarks of the Chairman continued to be pertinent.

Governor Balderston expressed the view that the point raised by Governor Mills was of substantial importance. He recalled that Chairman Martin had also observed that if the two Reserve Banks with a 3 per cent discount rate were to change that rate during a period of Treasury financing, it might amount to "selling out at the bottom of the market."

After further discussion, it was suggested that Governor Balderston talk by telephone with Chairman Perrin, or in his absence Deputy Chairman Jesness, and President Powell and explain why the Board was deferring action on the proposed rate change. It was suggested that in such conversations Governor Balderston could point out the possible national implications in a change in the Minneapolis rate at this time, could request a statement of the reasons underlying the action of the executive committee, and could indicate that in the opinion of the Board of Governors there was a question whether an action of such moment did not deserve the consideration of the full Board of Directors.

Thereupon, it was agreed
unanimously to defer action on

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the proposed rate change for the reasons brought out during the discussion, and that Governor Balderston should make the suggested telephone calls.

There was then presented for consideration a telegram to Mr. Brawner, Federal Reserve Agent at the Federal Reserve Bank of San Francisco, which had been circulated to the members of the Board and which would authorize the issuance, pursuant to section 5144 of the Revised Statutes, of a limited voting permit to Transamerica Corporation, San Francisco, California, entitling it to vote the stock which it owns or controls of The Casper National Bank, Casper, Wyoming, at any time prior to November 1, 1956, to act upon proposals:

- (1) to increase the capital stock of such bank, and
- (2) to amend the articles of association of such bank to conform to articles recommended by the Comptroller of the Currency, provided that all actions taken shall be in accordance with plans satisfactory to the Comptroller of the Currency.

Approved unanimously.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum dated July 16, 1956, from Mr. Young, Director, Division of Research and Statistics, Governor Balderston today approved on behalf of the Board the transfer of Bettie Merrill Pomeroy from the position

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of Clerk-Stenographer in the Division of Personnel Administration to the position of Clerk-Stenographer in the Division of Research and Statistics, without change in her basic salary at the rate of \$3,670, effective July 16, 1956.

Secretary's Note: Pursuant to the action taken by the Board on July 19, 1956, the following letter to Mr. Y. Ono, Director and Agent, The Bank of Tokyo, Ltd., New York Agency, New York, New York, was sent today to the Federal Reserve Bank of San Francisco for transmittal:

This refers to your letter of June 1, 1956, and our previous correspondence with respect to your request that the Board reaffirm its determination of January 8, 1953, that The Bank of Tokyo, Ltd. of Japan is not engaged as a business in holding the stock of or managing or controlling banks, banking associations, savings banks or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended.

In the Board's letter of January 8, 1953, reference was made to the Board's understanding that The Bank of Tokyo, Ltd. of Japan did not and would not own or control, directly or indirectly, the stock of any banking institution in the United States other than The Bank of Tokyo of California, and did not and would not manage or control, directly or indirectly, any banking institution in the United States other than The Bank of Tokyo of California.

In its letter of April 17, 1956, the Board stated its understanding with respect to the banking operations of The Bank of Tokyo Trust Company of New York which was organized in 1955 and its relationship to The Bank of Tokyo, Ltd. of Japan. On the basis of this understanding of the facts, the Board stated that it would not be warranted in reaffirming the determination made by the Board in its letter of January 8, 1953, although before taking such action, the Board indicated its willingness to consider favorably a reaffirmation of the 1953 determination upon receipt of satisfactory assurance that The Bank of Tokyo Trust Company of

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New York will not receive deposits from the public in the United States, including Japanese nationals in this country.

The Board has given careful consideration to your letter of June 1, 1956, and has noted that it fails to provide assurance that The Bank of Tokyo Trust Company of New York will not receive deposits from Japanese nationals in this country. Therefore, the Board rescinds the determination which it made in its letter of January 8, 1953; and, accordingly, The Bank of Tokyo, Ltd. of Japan now is a holding company affiliate of The Bank of Tokyo of California for all purposes within the meaning of section 2(c) of the Banking Act of 1933, as amended.

As a result of this action, it will be necessary for The Bank of Tokyo of California to obtain from The Bank of Tokyo, Ltd. of Japan and file with the Federal Reserve Bank of San Francisco within 90 days after the date of this letter the agreement, prescribed by section 9 of the Federal Reserve Act and section 3 of the Board's Regulation P, that The Bank of Tokyo, Ltd. of Japan shall be subject to the same conditions and limitations as are applicable under section 5144 of the Revised Statutes of the United States, as amended, in the case of holding company affiliates of national banks. There are enclosed copies of the form of this agreement.

Following the filing of this agreement, The Bank of Tokyo, Ltd. of Japan must obtain a voting permit from the Board of Governors if it desires to vote its stock in The Bank of Tokyo of California.



Secretary