Minutes for August 9, 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	
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, August 9, 1956. The Board met in the Board Room at 9:30 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Vest, General Counsel
Mr. Masters, Assistant Director, Division of Examinations
Mr. Solomon, Assistant General Counsel
Mr. Chase, Assistant General Counsel
Mr. Holahan, Supervisory Review Examiner, Division of Examinations
Mr. Powell, Special Counsel

Chairman Martin asked Mr. Powell to comment upon the suggestion that he (Mr. Powell) had made, as recorded in the minutes of the meeting of the Board on August 2, that the Board consider the issuance of warnings to Messrs. Cosgriff and Sullivan, President and Executive Vice President of The Continental Bank and Trust Company, Salt Lake City, Utah, under section 30 of the Banking Act of 1933, for unsafe and unsound practices in the conduct of the affairs of the bank by issuing checks on their accounts at Continental for amounts in excess of funds in their accounts.

Mr. Powell stated that his suggestion had developed out of the investigation relating to the proceeding brought by the Board against

Continental under section 9 of the Federal Reserve Act to ascertain whether capital funds of the bank were adequate and, if not, what additional amount should be provided. One of the principal features of the section 9 hearing, Mr. Powell said, would be an appraisal of the type of management of the bank and an attempt to relate the type of management to the risk factor which would, of course, have a bearing on the amount of capital funds needed to provide an adequate cushion against possible losses. An illustration of the course of conduct that had been indulged in to some extent by President Cosgriff and Executive Vice President Sullivan that would have a bearing on this point was their issuance of checks in excess of the balances in their accounts. Mr. Powell made it clear that any decision to issue a warning under section 30 should be reached entirely independently of the proceeding already instituted under section 9. He also said that Mr. O'Kane, General Counsel of the Federal Reserve Bank of San Francisco, had expressed the view a year ago that the Federal Reserve Agent at San Francisco should issue a warning under section 30.

Mr. Powell then read a draft of warning that might be issued by the Federal Reserve Agent at San Francisco, stating that the draft had been prepared by Mr. O'Kane as a result of their discussion of the matter last week. In commenting on the draft, Mr. Powell stated that it appeared that when a check issued by Mr. Cosgriff in excess of funds

in his account was presented for payment, Continental would temporarily place it in a suspense account. A note of Mr. Cosgriff's payable to another bank in an amount at least sufficient to cover the check would then be attached to the check and the proceeds of the note credited to Mr. Cosgriff's account at Continental, even though the note had not been sent to the bank to which it was payable and even though there was no supporting evidence in Continental's files that the other bank would discount the note. While Mr. Cosgriff might have an understanding with the other bank, Mr. Powell stated, such bank apparently was under no legal obligation to Continental to discount the notes sent to it, and under certain circumstances Continental could suffer loss. In at least one case, Mr. Sullivan, Executive Vice President, had also engaged in a similar transaction with checks in the amount of almost $200,000.

Mr. Powell pointed out that this practice of Mr. Cosgriff's had been commented upon in a report of examination made as of March 1, 1954, and discussed with Mr. Cosgriff on March 24, 1954, at which time he agreed to correct it. A subsequent report of examination, as of April 12, 1955 showed that the practice had not been discontinued, and in a letter to the San Francisco Reserve Bank dated December 8, 1955, Mr. Cosgriff had given assurance that steps had been taken to see that the practice would not recur. Notwithstanding these assurances, the report of examination of the bank, made as of March 12, 1956, showed

additional instances in which Mr. Cosgriff had issued checks in excess of funds in his account with the result that it appeared that the bank had on occasion extended credit to him, possibly in violation of section 22(g) of the Federal Reserve Act. In his comments, Mr. Powell reiterated the point that if the Board were to decide to issue a warning under section 30, that should be an action independent of the proceeding already started with respect to capital funds, although it would, as he had indicated, be useful in the current proceeding.

Governor Mills inquired of Mr. Powell whether, apart from the section 9 proceeding, he felt there were grounds for forcing Mr. Cosgriff's removal as an officer of Continental under section 30. He stated that he in no way condoned Mr. Cosgriff's handling of checks in the manner described but noted that if Mr. Cosgriff had arrangements with another bank to discount his notes, he could as well have drawn a draft on such bank and deposited the proceeds in his account at Continental. Governor Mills thought that with no intent to defraud, it would be extremely difficult to establish a case for removal of Mr. Cosgriff as an officer of Continental and that under those circumstances, issuance of a section 30 warning at this time might indicate vindictiveness.

Mr. Powell responded that the first step under section 30 would be for the Federal Reserve Agent at San Francisco to issue a warning to

Mr. Cosgriff that the practice referred to should be discontinued. If such a warning proved to be ineffective as shown by subsequent examination reports, the Board would then have to consider whether to institute a proceeding with a view to removal of Mr. Cosgriff from office.

Governor Mills then inquired whether such a warning under section 30 might weaken the proceeding started under section 9 of the Federal Reserve Act to ascertain whether The Continental Bank and Trust Company needed additional capital funds. The principle involved in the section 9 proceeding already instituted would apply to Continental or to other banks, he said, and it was important to establish the principle that if a bank was going to conduct a certain type of business, it would have to provide additional capital funds to protect depositors against possible loss.

Mr. Powell said that he believed that the course of conduct reported was sufficiently serious to justify issuance of a warning to the officers of the bank under section 30 entirely independent of the proceeding relating to capital funds. However, he felt that the section 30 warning would be an adjunct to the proceeding against the bank under section 9 of the Federal Reserve Act, since it would reveal in a way that could not easily be brushed aside by Messrs. Cosgriff and Sullivan an important aspect of the management that should not be disregarded in considering the need for additional capital funds.

Governor Robertson inquired whether it would be possible to bring this point into the hearing on the need for capital funds without issuing a warning under section 30, to which Mr. Powell responded that it would be brought in whether or not the section 30 warning was issued. The only purpose of the warning from the point of view of the section 9 proceeding would be to foreclose the possibility of the bank's attempting to minimize the importance of the actions by Messrs. Cosgriff and Sullivan by stating that the supervisory authority apparently did not consider them to be sufficiently serious to result in a formal warning.

Governor Shepardson inquired how effective such a warning issued at this time would be as an adjunct to the hearing under section 9, and Mr. Powell responded that admittedly it would have been desirable to have issued the warning earlier. However, inasmuch as the most recent report of examination did not become available until mid-June, little more than six weeks had elapsed and he felt it preferable to issue the warning now rather than to delay further.

Mr. Holahan made a statement in which he said that when he and Mr. Powell discussed the advisability of a section 30 warning in San Francisco last week, he (Mr. Holahan) felt it a good idea that a warning be issued by the Federal Reserve Agent at San Francisco without bringing it to the attention of the Board. However, Mr. Mangels, President of the San Francisco Bank, was reluctant to take such action without

consulting with the Board's offices, noting that the San Francisco Bank had not previously issued a section 30 warning. Mr. Holahan said that he felt that it was perhaps unfortunate that the matter had come to the Board instead of being handled on a unilateral basis at San Francisco, in view of the divorce of functions in connection with the section 9 proceeding and the fact that he had been advised there was precedent for issuance of such warnings by the Federal Reserve Agent without consulting with the Board. He referred to the memorandum that Mr. O'Kane had written in August 1955, a copy of which was sent to the staff at the Board for comment, stating why he (Mr. O'Kane) then felt that a warning should be issued to Mr. Cosgriff under section 30. Mr. Holahan said that members of the Board's legal staff at that time pointed out that a section 30 warning would not be effective because Mr. Cosgriff would merely transfer his account out of the Continental Bank. With respect to the handling of Mr. Cosgriff's checks, Mr. Holahan said that even if, as Governor Mills had pointed out, a draft had been drawn on another bank and the proceeds credited to his account, that would have represented uncollected funds and Continental might thus have been extending credit to an executive officer in violation of section 22(g) of the Federal Reserve Act. Mr. Holahan said that he was now somewhat less firm than he was last week in believing that a section 30 warning should be issued.

Mr. Carpenter stated that Mr. Mangels had made the comment over the telephone last week that he would not recommend the issuance of a warning and he inquired of Mr. Holahan as to the current attitude at San Francisco toward a warning.

Mr. Holahan said that he believed that as of now Mr. O'Kane felt it unfortunate that the situation had developed as it had, since it seemed quite clear that the Agent at San Francisco could have issued the warning on a unilateral basis so that the section 9 and section 30 proceedings could be kept independent of each other.

Governor Mills inquired of Mr. Powell whether he had considered this matter in terms of the charge of persecution by the Board that has been made by Mr. Cosgriff.

Mr. Powell responded that if there were not a background of discussions by the examiner of the practices in question and of Mr. Cosgriff's letter of December 8, 1955, and if there had not been the recommendation by Mr. O'Kane for issuance of such a warning a year ago, it might be that issuance of a warning at this time would provide a basis for a charge of persecution. However, under the circumstances he thought there would be no basis for such a charge and that if any such charge were made, it could be met.

Governor Vardaman suggested that even though only one transaction of the type under discussion had been reported in the case of

Executive Vice President Sullivan, it would seem desirable to include a warning to him if one were issued to Mr. Cosgriff, and Mr. Powell responded that this was in accordance with the recommendation he had made.

Governor Shepardson stated that the proceeding brought under section 9, which would involve a possible loss of membership by Continental, was more drastic than would be the removal of an executive officer under a section 30 proceeding. He raised the question, therefore, whether the Board could not meet any attempt by Mr. Cosgriff to brush aside the seriousness of the handling of his checks by stating that action had not been taken to issue a warning under section 30 inasmuch as the Board was pursuing a more serious matter under section 9.

Mr. Powell stated that one of the most important points in the section 9 proceeding was management characteristics of the bank. He felt that that proceeding could be presented effectively without a warning to Messrs. Cosgriff and Sullivan under section 30. However, he felt that their actions under discussion were very material and relevant as indicating management characteristics, that they should be brought out in a forceful manner, and that to do so would have an effective bearing on the section 9 case.

Governor Balderston stated that the practices under discussion had been commented on in three examination reports and that they had

been subjects of discussion and correspondence between Mr. Cosgriff and the San Francisco Bank. He did not see how the supervisory authority could avoid issuing a warning, as suggested by Mr. Powell. However, he inquired whether issuance of a warning at this time might be taken as evidence that the Board was uncertain of its proceeding under section 9.

Mr. Powell said he did not think such an argument could be made effectively. He noted that the proposal was only for issuance of a warning at this stage by the Federal Reserve Agent at San Francisco. The hope would be that the practice criticized would be stopped upon issuance of the warning. If the practice were stopped that, of course, would eliminate any need for proceeding by the Board against Messrs. Cosgriff and Sullivan under section 30.

Governor Robertson then inquired whether information available indicated that criminal violation of the statute may have occurred, to which Mr. Vest responded that he knew of no basis for believing that there had been criminal violations of the law. Mr. Vest also stated that while there probably were technical violations of section 22(g) in the handling of Mr. Cosgriff's checks, section 22(g) does not carry a criminal penalty, and the transactions were not, in his opinion, of the type for which a supervisory authority would be likely to get a criminal conviction.

Mr. Solomon stated that whatever form the handling of checks had taken, there had been no effort to disguise the fact that Mr. Cosgriff

had borrowed from his bank if the handling of the checks resulted in an extension of credit. Such credit extensions would be forbidden by section 22(g) but that section does not provide for criminal penalties. As a matter of fact, Mr. Solomon said, Mr. Cosgriff relied on the deferred posting statute which permits holding checks until the day after they are received by the drawee bank, and by that time his account was in funds in all but two or three cases. Mr. Solomon noted that there was nothing wrong in extending credit to take up checks of a customer or in permitting an overdraft, except that when an executive officer of a bank obtains credit in that manner, it is in violation of section 22(g) except when the total amount does not exceed $2,500 at one time.

Mr. Holahan stated that the views expressed by members of the Board's legal staff as to the possible violation of section 22(g) differed somewhat from the view that he and Mr. O'Kane of the San Francisco Bank held, in that the latter believed that despite the deferred posting statute, a violation of this section had occurred because the depositor was actually receiving credit in connection with the checks held. Mr. Holahan said that in his opinion the funds should be in the account at the time a check is presented.

Mr. Vest said that he and other members of the Board's legal staff did not think there was as much likelihood of these practices

being construed as a violation of section 22(g) as Mr. O'Kane had felt; he knew of no other differences between the Board's Legal Division and the Division of Examinations and Mr. O'Kane in this respect.

Chairman Martin stated that he felt the matter had been well explored in the discussion. He thought no one would disagree that the practices referred to were reprehensible. While there could be disagreement as to whether the matter had been handled in the most satisfactory manner, his personal view at this particular juncture was that if he were making the decision, he did not think he would now issue a section 30 warning. However, the Board had employed Mr. Powell to handle the section 9 proceeding and it was the Chairman's view that if Mr. Powell felt that the warning under section 30 would be helpful in the section 9 proceeding, the Board should not stand in the way of its issuance. On this basis, he felt that the question whether the Federal Reserve Agent at San Francisco should issue a warning under section 30 at this time should be determined on the basis of Mr. Powell's recommendation.

Governor Robertson stated that he felt the Board should take every reasonable action that could be taken to bring about a proper administration of banks under its supervision. Quite aside from the section 9 proceeding against Continental, he felt that practices of the sort described called for the issuance of a warning as an effort to

bring about correction of those practices. Therefore, he would favor issuance of the suggested warning at this time regardless of the section 9 proceeding.

Governor Mills said he would concur with Chairman Martin's view that the decision in this matter should rest with Mr. Powell as counsel in the section 9 proceeding. His own view was that the issuance of the section 30 warning would detract from the forceful and effective prosecution of the section 9 case.

Governor Balderston said that he shared the concern Governor Mills had expressed of confusing the issues in the section 9 case, which was important as a matter of principle for this and for other banks. However, as he had indicated before, the objectionable practices pursued by Mr. Cosgriff had been reported in three examination reports and even though they had been taken up with him, he had continued to repeat the practices. He did not see how the supervisory authority could properly delay longer in warning Messrs. Cosgriff and Sullivan that these practices should be discontinued.

Governors Vardaman and Shepardson also having indicated their concurrence in the suggestion that the Federal Reserve Agent at San Francisco issue a warning along the lines recommended by Mr. Powell, there was unanimous agreement that this view should be transmitted to the San Francisco Bank.

Secretary's Note: The view was telephoned to President Mangels by the Secretary immediately following this meeting.

Mr. Vest stated that he would not wish to have an implication from the discussion that a recommendation had been submitted by the Federal Reserve Bank of San Francisco a year ago that a section 30 warning be issued to Mr. Cosgriff and that the matter had not been brought to the attention of the Board. He noted that Mr. O'Kane as General Counsel of the San Francisco Bank had written a memorandum on this matter, that he had sent a copy to the Division of Examinations as well as a copy to the Legal Division, and that the comments of the Legal Division had been furnished to Mr. O'Kane. However, no recommendation had come to the Board from the Federal Reserve Bank of San Francisco although subsequently there had been a number of discussions in meetings of the Board of the question whether a section 30 proceeding should be instituted against the Continental Bank.

Mr. Powell stated that when he was in Salt Lake City last week, one of the attorneys for The Continental Bank and Trust Company informed him that, if it became necessary for the hearing under the section 9 proceeding to be postponed to a date later than September 10, 1956, it would be desirable from the standpoint of the bank that the date be set some time in November. After explaining the reasons for this request, Mr. Powell stated that he had responded to the attorney that he would bring this suggestion to the Board's attention.

During the foregoing discussion Messrs. Bethea, Director, Division of Administrative Services; Young, Director, Division of Research and Statistics; Johnson, Controller, and Director, Division of Personnel Administration; and Noyes, Adviser, Division of Research and Statistics, entered the room and at the conclusion Messrs. Powell and Holahan withdrew.

Before this meeting there had been sent to the members of the Board a copy of the following proposed Order:

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

ORDER

In view of the unavailability on September 10, 1956, of the trial examiner selected in the manner stated in section 2 of the "Notice of Institution of Proceeding and of Hearing Therein" in this matter, it is hereby ordered that the time designated in said Notice for commencing the hearing be, and is hereby, changed to 10:00 A.M. on October 3, 1956.

By order of the Board of Governors.

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

(SEAL)
Washington, D. C.
August 9, 1956

Mr. Vest stated that this draft of Order had been prepared before the Legal Division knew of the informal request of the attorneys for the Continental Bank for a delay in the hearing until November, as reported by Mr. Powell at this meeting. Mr. Vest's opinion was that it would be preferable for the Board to reset the hearing date for October 3, 1956, as proposed in the Order, recognizing that the Continental Bank might through its attorneys make a formal request for a further postponement of the hearing.

The Order was approved unanimously.

The following matters, which had been circulated to the members of the Board, were presented for consideration and the action taken in each instance was as stated:

Memorandum dated August 1, 1956, from Mr. Fauver, Assistant Secretary, regarding a request that he perform certain duties for the Government Unit of the United Givers Fund during the forthcoming campaign of that organization.

Approved unanimously

Memorandum dated August 3, 1956, from Mr. Horbett, Associate Director, Division of Bank Operations, relating to a request by the Federal Deposit Insurance Corporation for certain unpublished items in condition reports of individual State member banks in connection with a request from a Senate committee for information in connection with its investigation of alleged defalcations by a former official of the State of Illinois.

Approved unanimously.

Letter to the Board of Directors, The Elizabethport Banking Company, Elizabeth, New Jersey, reading as follows:

Reference is made to your letter of July 19, 1956, addressed to Mr. Fred W. Piderit, Jr., Chief Examiner of the Federal Reserve Bank of New York, concerning the interchange of your main office, originally located at 100 First Street, Elizabeth, New Jersey, and your branch, originally located at 1145 East Jersey Street, Elizabeth, New Jersey. It is noted that the interchange has been approved by the appropriate State authorities.

The relocation of the main office at the branch site does not require approval of the Board of Governors; however, the relocation of the branch is deemed to constitute the establishment of a new branch, which, under the provisions of Section 9 of the Federal Reserve Act, requires the prior approval of the Board.

In this connection it is understood that the office at 1145 East Jersey Street has for all practical purposes been the main office since 1951, at which time most of the operations and records were centralized at that location. In the circumstances, therefore, the Board approves the establishment by The Elizabethport Banking Company, Elizabeth, New Jersey, of a branch at 100 First Street, Elizabeth, New Jersey.

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

Letter to Mr. Boyd, Chief Examiner, Federal Reserve Bank of Cleveland, reading as follows:

In view of the circumstances outlined in your letter of July 25, 1956, and the Reserve Bank's favorable recommendation, the Board of Governors extends until December 24, 1956, the time within which The Silverton Bank, Silverton, Ohio, may establish a branch on Kenwood Road about 200 feet south of the intersection with Montgomery Road in Sycamore Township, Hamilton County,

Ohio, under the authorization contained in its letter of August 15, 1955.

Approved unanimously.

Letter to Mr. Kroner, Vice President, Federal Reserve Bank of St. Louis, reading as follows:

Reference is made to your letter of July 13, 1956, regarding the possible applicability of section 32 of the Banking Act of 1933, to Mr. Robert Brookings Smith, who is a limited partner in the investment firm of Smith, Moore and Company, and a member of the Advisory Board of Mercantile Trust Company of St. Louis, St. Louis, Missouri.

You are correct in assuming that the same principles are applicable in determining whether a member of an advisory board is a director, officer, or employee of a member bank within the meaning of section 8 of the Clayton Act, as are applicable in determining whether such a person is an officer, director, or employee of a member bank within the meaning of section 32 of the Banking Act of 1933.

You are also correct in assuming that the fact that Mr. Smith is only a limited partner in the investment firm would not render section 32 inapplicable.

As you state in the last paragraph of your letter, you will, of course, need to give consideration to the question whether the firm is "primarily engaged" in one or more of the activities enumerated in section 32.

Approved unanimously.

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

As recommended in your letter of July 25, 1956, the Board of Governors extends to March 25, 1957, the

time within which the Southern Arizona Bank and Trust Company, Tucson, Arizona, may establish a branch in the vicinity of Swan Road and Broadway, Tucson, Arizona.

This extension is granted with the continuing understanding that the branch will be established as a successor to the branch now operating at Alvernon and Broadway, Tucson, Arizona.

Please advise the bank of the Board's action.

Approved unanimously.

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

Reference is made to your letter of July 27, 1956, regarding the request of California Bank, Los Angeles, California, for an extension of time within which to establish a branch in the vicinity of Sherman Way and Sepulveda Boulevard in Van Nuys, California.

After considering the information submitted the Board extends to March 8, 1957, the time within which California Bank may establish the above described branch.

It is suggested that you advise the bank that indefinite postponement of the establishment of this branch would not be regarded favorably.

Approved unanimously.

Letter to Mr. William J. Phillips, Professor and Head, Department of Economics, Southwestern Louisiana Institute, Lafayette, Louisiana, reading as follows:

This refers to your letter of July 20, 1956, concerning whether member banks of the Federal Reserve System that levy service charges on checking accounts of their customers are prohibited by Regulation Q or any other regulation of the Board from carrying over to the following month any surplus earning credit relative to any such account. You illustrated your inquiry as follows:

"For example, suppose Mr. Smith's account is to be charged $2.50 for services and the bank estimates the earning credit on his account to be $3.50. Would your regulations prohibit this bank from carrying over the $1.00 of surplus earning credit to the next month?"

You apparently have in mind a plan of monthly account analysis which provides for a set-off of the theoretical earning value of a depositor's account against the cost of the various overhead services performed by the bank in handling the account.

In an interpretation published at page 13 of the 1944 Federal Reserve Bulletin, the Board expressed the view that the use of the monthly account analysis plan there considered was not a payment of interest contrary to Regulation Q or section 19 of the Federal Reserve Act, pursuant to which the regulation is issued. It will be noted, however, that the interpretation was based on the assumption and understanding that the plan did not result in any payment to the customer or any credit which increased the amount of his deposit balance. The analysis was simply an internal arrangement to enable the bank to determine whether service charges should be made and the only effect of the use of the analysis was that the bank refrained from making such charges in certain circumstances. A copy of the interpretation and a copy of the regulation are enclosed. Relevant provisions of section 19 of the Federal Reserve Act are printed in the Appendix to the regulation.

The interpretation just referred to is the only one which the Board has published that would seem to have a bearing on the matter of interest to you.

It does not appear from your letter that your question involves an account analysis or service charge arrangement of any particular member bank, nor are any details of any particular arrangement set forth or described. With respect to such questions, it has been the Board's policy not to undertake definite answers except where all the

detailed facts and circumstances have been fully developed in a specific case. It is hoped, however, that the interpretation referred to above will be of assistance to you.

Approved unanimously.

The Secretary reported receipt of a letter dated August 6, 1956, from Mr. William M. Day tendering his resignation as a director of the Detroit Branch of the Federal Reserve Bank of Chicago.

Mr. Day's resignation was accepted effective July 31, 1956.

Mr. Vest then withdrew from the meeting and Messrs. Leonard, Director, Division of Bank Operations, and Allison, Special Consultant to the Board, entered the room.

Before this meeting there had been sent to the members of the Board a draft of the final evaluation report covering Operation Alert 1956 to be submitted by the Board to the Office of Defense Mobilization not later than August 31, 1956. Attached to this draft was a separate communications center evaluation report. Also, there had been distributed to the members of the Board a memorandum from Governor Robertson dated August 7, 1956, in which he stated that Operation Alert 1956 raised two basic questions so far as Federal Reserve planning is concerned. One of these was whether the economic planning should be based on (a) freeze and restriction of the use of bank deposits as

an economic measure to control expenditures by the public, or (b) a policy of liquidity and a free monetary economy with necessary control based on general monetary and fiscal policies and restrictions on use of materials. The other question was whether Richmond is a suitable relocation site for the Board.

Accompanying Governor Robertson's memorandum were three statements entitled Problems Related to Economic Stabilization, Two Approaches Toward Emergency Regulation of Commercial Banks, and Questions as to Relocation Sites.

At Governor Robertson's request, Mr. Carpenter summarized the draft of evaluation report to be submitted to the Office of Defense Mobilization. Governor Robertson also suggested that the members of the Board read the separate communications center evaluation report prepared by Mr. Chase. He then called upon Mr. Leonard who commented on the approaches toward emergency regulation of commercial banks and summarized the basic differences between the approach taken in the program for post attack functioning and rehabilitation of banking institutions, developed under the National Security Resources Board in 1953, and the approach taken in the Treasury program introduced in Operation Alert 1956, copies of which were made available on the morning of the Alert. Mr. Leonard stated that the Treasury program represented a compromise between the 1953 documents, which attempted

to give banks flexibility in meeting situations following an emergency attack, and a complete freeze of the banking system.

Mr. Noyes commented on problems related to economic stabilization, noting that it was recognized that a major problem in restoring the economy would be the problem of restoring solvency of the nation's financial institutions. He felt that the exercise had demonstrated that this would call for some kind of indemnification plan.

Mr. Riefler stated that he felt Operation Alert 1956 represented a great advance in defense planning in that an effort had been made to deal with the economic problems that were presented and to find solutions to them. He also reported on discussions at the Office of Defense Mobilization concerning the Alert, stating that Mr. Flemming, Director of ODM, had stressed three points:

(1) The Alert disclosed a lack of knowledge and facts regarding civilian requirements of the economy in an emergency, and a major task during the next year would be to find out what the civilian requirements of the economy were and how they could be managed in an emergency.

(2) Consideration should be given to the desirability of having some sort of permanent staff at every relocation site, such staff to be carrying on part of the regular work of the agency.

(3) There was an urgent need for each agency to evaluate its relocation site in the light of the problems of fall-out that have become known since selection of the present sites.

Governor Robertson suggested that in the light of experience with Operation Alert 1956, it would be desirable for the Board to undertake to develop in connection with the Treasury and the Office of Defense Mobilization a plan which would better meet the problems related to economic stabilization. To that end, he recommended that the Board authorize the preparation of a program and its implementation with specific documents that could be used in discussion of the matter with the Treasury and Office of Defense Mobilization representatives. He made it clear that before any documents were presented to other agencies they would be discussed with the Board.

This recommendation was approved unanimously.

Governor Robertson then called upon Mr. Leonard for comments with respect to the relocation site and factors that might be considered in studying the possible advantages of obtaining a site different from Richmond. After Mr. Leonard's comments, Governor Robertson suggested that the Board's review of its relocation site be handled expeditiously in view of the fact that decisions were to be made in 45 to 60 days as to installation of new communications services. It was his view that it was highly important that the relocation sites of the Treasury, the Comptroller of the Currency, Federal Deposit Insurance Corporation, and the Federal Reserve and possibly other Government agencies be in the same general area. He suggested,

therefore, that a member of the Board be designated to confer with other agencies that would be concerned, with the understanding that the member of the Board so designated would be free to use members of the staff in assisting him.

Chairman Martin suggested that Governor Robertson be designated as the member of the Board for this purpose and that the Board authorize him to proceed to obtain information regarding a relocation site along the lines indicated.

Chairman Martin's suggestion was approved unanimously.

Governor Robertson stated that another matter of importance was the program for developing commercial banker participation in defense planning and he suggested that Mr. Allison be asked to continue the work already started along these lines.

This suggestion was approved unanimously with the understanding that Mr. Allison would work under Governor Robertson's general supervision.

In a discussion of the evaluation report to be submitted to the Office of Defense Mobilization by August 31, 1956, Governor Balderston suggested certain changes and Governor Robertson proposed that Mr. Thurston be asked to work with Mr. Carpenter in revising the report to take account of these suggestions, it being understood that the report

was approved by the Board and would be transmitted to the Office of Defense Mobilization when completed.

This suggestion was approved unanimously.

The meeting then adjourned.

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

Memorandum dated August 6, 1956, from Mr. Marget, Director, Division of International Finance, recommending that the resignation of Floyd L. Whittington, Chief of the Far Eastern Section in that Division, be accepted effective August 19, 1956.

Memorandum dated July 27, 1956, from Mr. Marget, Director, Division of International Finance, recommending the appointment of Robert Babbitt Bangs as Chief of the Far Eastern Section in that Division, with basic salary at the rate of $11,610 per annum, effective August 13, 1956.

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 August 3, 1956, the Board approves the appointments of Patrick F. Callahan and Edward F. Kipfstuhl as examiners and Edward J. Mizerski as an assistant examiner for the Federal Reserve Bank of New York.
>
> Please advise as to the dates upon which the appointments are made effective and as to the salary rates.

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

> In accordance with the request contained in your letter of August 2, 1956, as supplemented by your telegram

of August 7, 1956, the Board approves the designation of James Lewis Jones, Jr. and Stephen Orosz as special assistant examiners for the Federal Reserve Bank of Atlanta for the purpose of participating in examinations of State member banks only.

The Board also approves the designation of James Lee Jones as a special assistant examiner for the purpose of participating in examinations of State member banks only. The authorization heretofore given your Bank to designate Jas. L. Jones, Jr. as a special assistant examiner is hereby cancelled.

It is noted that James Lee Jones, whose designation as a special assistant examiner as Jas. L. Jones, Jr. was approved August 8, 1952, has been transferred to the Bank Examination Department as a trainee--special examiner. Where a special assistant examiner is to be used regularly in the work of the Bank Examination Department, it is requested that information as outlined in letter S-178 of August 25, 1939, (F.R.L.S. #9181) be furnished as in the case of requests for the approval of appointments of examiners and assistant examiners. In subsequently requesting approval of the appointment of such an employee as a regular assistant examiner, it will be sufficient to supplement the data previously furnished concerning him. Accordingly, it will be appreciated if you will furnish for our files such data on James Lee Jones.

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

In accordance with the request contained in your letter of August 6, 1956, the Board approves the appointment of Howard L. Pfluger as an assistant examiner for the Federal Reserve Bank of Dallas effective today.

Secretary