

Minutes for September 6, 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>MM</u>	_____
Gov. Szymczak	x <u>SS</u>	_____
Gov. Vardaman	x <u>SV</u>	_____
Gov. Mills	_____	x <u>_____</u>
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u>CS</u>	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, September 6, 1956. The Board met in the Board Room at 10:45 a.m.

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

Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Vest, General Counsel
 Mr. Sloan, Director, Division of
 Examinations
 Mr. Goodman, Assistant Director, Division of Examinations

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. Newman, Vice President, Federal Reserve Bank of Chicago, reading as follows:

The Board of Governors approves the payment of salaries by the Federal Reserve Bank of Chicago to the incumbents of the positions listed below at the rates indicated in accordance with the requests contained in your letters of August 2 and August 17, 1956.

<u>Title</u>	<u>Annual Salary</u>
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Effective September 1, 1956

Engineers	\$6136.00
Firemen	5304.00

Effective October 1, 1956

Starter	\$4737.20
Assistant Starter	4472.00
Split-Shift Operators	4534.40
Operators	4264.00

Approved unanimously.

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Letter to the Board of Directors, The Peoples National Bank of Lawrenceburg, Lawrenceburg, Indiana, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Indiana, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers which The Peoples National Bank of Lawrenceburg is now authorized to exercise will be forwarded to you in due course.

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

At the meeting on August 30, 1956, consideration was given to a request made on behalf of Bank of America, New York, New York, by Mr. Roland Pierotti, Assistant to the President, Bank of America National Trust and Savings Association, San Francisco, California, for approval in principle by the Board of Governors of the purchase by Bank of America of the stock of Banca d'America e d'Italia, Milan, Italy, held by Transamerica Corporation. In view of questions raised at that time, a decision on the matter was deferred.

In summarizing the previous discussion, Governor Szymczak said that the principal question concerned the feasibility and advisability

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of a condition which would state that when required by the Board, Bank of America would cause the Italian bank to permit examiners appointed by the Board to examine the bank and its branches and agencies. It was suggested, he said, that by imposing such a condition the Board might place itself in an untenable position, having in mind that the bank was organized and operates under Italian statutes. He went on to say that a possible alternative might be to suggest to Bank of America that if Banca d'America e d'Italia should be purchased, Bank of America should then establish branches in Italy to which operations of the Italian bank would be transferred.

Governor Vardaman, who had questioned the inclusion of a condition with respect to the right to examine the Italian bank, stated that if the Board were to impose such a condition it seemed to him that it would follow that the Board should conduct examinations as often and on such basis as it desired. However, the fact that the bank was an Italian corporation, organized and operating under Italian law, apparently would make it impossible to examine the institution except by agreement of the bank and the Italian authorities even if Bank of America accepted the condition. He also called attention to problems of a practical nature which might confront the Board's examiners in actually making an examination of the Italian institution should such examination be permitted. For the Board in such circumstances to hold itself out as supervising the operations of the Italian bank seemed to him to be impractical and inadvisable.

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At the Chairman's request, Mr. Goodman traced the history of Banca d'America e d'Italia and described in general terms the nature of the bank's operations. In this connection, he said that although the volume of the bank's foreign business appeared to be relatively large in relation to the total picture, the bank was not engaged exclusively in international operations. He then referred to the general policy established by the Board calling for the examination of foreign branches of American banks and foreign banking corporations on at least a three-year schedule and said that where a foreign bank is controlled through stock ownership there would not appear to be too much difference between such a bank and a foreign branch from the point of view of the examining procedure that should be followed. In this case, he pointed out, the controlled bank would be somewhat larger than Bank of America itself, and if there should be adverse developments in its operations he felt that such developments would have a direct effect on the position of Bank of America. Therefore, he did not feel that he could recommend approval of the proposed transaction unless the Board would have the same degree of supervisory control as with regard to a foreign branch of Bank of America. He went on to recall that when asked what the attitude of Bank of America would be regarding periodic examination of Banca d'America e d'Italia by the Board, Mr. Pierotti replied that while Bank of America would be agreeable to such a condition, if such examination was within the jurisdiction of the Board, he did not know whether

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examination of the Italian bank would be compatible with Italian laws and regulations and with established international customs and practices. In the light of Mr. Pierotti's reply, Mr. Goodman suggested that if the Board contemplated approving the stock purchase proposal it might be desirable to have at least an informal clearance concerning examining policy from the central bank in Italy.

In response to a question by Chairman Martin, Mr. Goodman said that information regarding Banca d'America e d'Italia was available to the Board principally from the annual reports of Transamerica Corporation and from data filed with the Securities and Exchange Commission by Transamerica. He also said that, as far as he knew, the Italian bank, as a subsidiary of Transamerica, had never been examined by any United States bank supervisory authority.

After further discussion of the supervisory responsibility that would devolve upon the Board should it approve the proposed transaction and the practical difficulties which might confront the Board in attempting to discharge such responsibility through examination of the Italian subsidiary bank, Governor Robertson expressed the view that the Board would not be justified in permitting Bank of America to engage in a foreign "branch" operation through a foreign subsidiary on a basis different from that on which it could conduct business through its own branches. He said that behind the entire operation of the Italian bank there would lie the name of Bank of America, and at least in a moral

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and ethical sense, which he felt would be recognized, Bank of America would be committed to assume any of the Italian bank's obligations. In such circumstances, he would not like to see the Board approve the acquisition of a corporation which would be beyond supervision by the Board and which would not have to operate in the same manner as a foreign branch of Bank of America. It would be his preference to advise Bank of America that the Board would authorize the proposed stock purchase as a temporary arrangement only, until such time as Bank of America could establish branches in Italy. Action of that kind by the Board, he commented, would have to be taken with the understanding that the Board would approve the establishment of the Italian branches.

Governor Szymczak suggested that the pertinent condition proposed to be included in the letter to Bank of America might be modified to read that to the extent that the Board was not in a position to examine Banca d'America e d'Italia, Bank of America would have the obligation of keeping the Board fully informed of the Italian bank's condition. He also suggested that the letter might go on to say that Bank of America should see whether at an early date it could establish branches in Italy in lieu of continuing the operations of Banca d'America e d'Italia. The use of such language, he felt, might accomplish the Board's principal objectives satisfactorily, while at the same time it would recognize the doubt that had been raised regarding the Board's ability to examine the Italian subsidiary.

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Governor Robertson indicated that he would be agreeable to a solution of the kind proposed by Governor Szymczak because, as he understood it, the Board would reserve the right of examination and presumably would exercise that right unless it was prevented from undertaking an examination of the Italian bank.

Governor Vardaman, who expressed agreement with the language suggested by Governor Szymczak except insofar as it was intended to envisage an actual attempt to examine the Italian institution, referred again to the examining problems that might be encountered in terms of personnel resources and interpretation of the bank's operations in the light of Italian statutes and practices. He inquired whether the Board would deem it advisable to try to appraise the soundness of the bank's condition in such circumstances.

Commenting on the points which Governor Vardaman had mentioned, Chairman Martin expressed doubt whether the Board should forfeit the statutory powers available to it merely in the knowledge that actual examination of the foreign bank might not be possible because of practical difficulties in arranging for or making such an examination. He suggested that the inclusion of conditions based on statutory authority might tend to provide a safeguard that would be helpful if developments in the affairs of the foreign subsidiary made it necessary for the Board to seek corrective action.

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Following further discussion, it was suggested by Governor Robertson that a decision on the matter be deferred in the light of the various points of view that had been expressed, and there was agreement with this suggestion.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board increases in the basic annual salaries of the following employees, effective September 9, 1956:

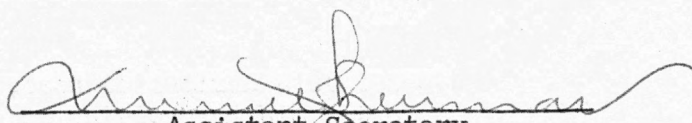
<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Research and Statistics</u>			
Murray Altmann, Economist		\$6,605	\$6,820
Joan R. Winter, Clerk		3,670	3,755
<u>Examinations</u>			
Charles E. Aikens, Assistant Federal Reserve Examiner		4,215	4,525
<u>Administrative Services</u>			
Louis N. Bertol, Captain, Guard Force		5,160	5,295
Manros A. Nickens, Messenger		2,690	2,775

Governor Shepardson also approved on behalf of the Board the recommendation contained in a memorandum dated August 30, 1956, from Mr. Sloan, Director, Division of Examinations, that Messrs. Goodman and Hostrup, Assistant Directors of the Division, be authorized to attend the annual convention of the

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National Association of Bank Auditors and
Comptrollers to be held in Washington, D. C.,
September 17-20, 1956, and to receive reim-
bursement for the registration fees of \$35
each.



Assistant Secretary