The attached set of minutes of the Board of Governors of the Federal Reserve System on September 13, 1956, which you have previously initialed, has been amended at the request of Governor Mills to revise the paragraph beginning at the bottom of page 11 and continuing on page 12. If you approve the minutes as amended, please initial below.

Chm. Martin

Gov. Szymczak

Minutes for September 13, 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, September 13, 1956. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Sloan, Director, Division of Examinations
Mr. Marget, Director, Division of International Finance
Mr. Solomon, Assistant General Counsel
Mr. Noyes, Adviser, Division of Research and Statistics
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Tamagna, Consultant on Savings Statistics, Division of Research and Statistics
Mr. Furth, Chief, Financial Operations and Policy Section, Division of International Finance

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. Phelan, Vice President, Federal Reserve Bank of New York, reading as follows:

Reference is made to your letter of August 28, 1956, regarding the request of The State Trust Company, Plainfield,

New Jersey, for a further extension of time within which it may establish a branch at 1115-1125 South Avenue, Plainfield, New Jersey. It is noted that although the trust company expects the branch building to be ready for occupancy by September 27, 1956, it believes that the additional time would cover any further possible delays.

After consideration of the information submitted, the Board concurs in your recommendation and extends to October 29, 1956, the time within which The State Trust Company may establish the branch as originally approved on May 27, 1955.

Approved unanimously.

Letter to Mr. Hill, Vice President, Federal Reserve Bank of Philadelphia, reading as follows:

Reference is made to your letter of August 24, 1956, submitting the request of Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, for approval under the provisions of Section 24A of the Federal Reserve Act of additional investments in bank premises aggregating $591,800 which have been made or are to be made for alterations or improvements to existing banking offices.

After considering the information submitted, the Board of Governors approves the additional investment of $591,800 in banking premises by the Fidelity-Philadelphia Trust Company.

Approved unanimously.

Letter to Mr. Woolley, Vice President, Federal Reserve Bank of Kansas City, reading as follows:

Reference is made to your letter of August 28, 1956, enclosing a resolution adopted by the board of directors of the Brighton State Bank, Brighton, Colorado, signifying its intention to withdraw from membership in the Federal Reserve System simultaneously with its approval for continuance of deposit insurance which it intends to accomplish as soon as possible.

In view of the bank's desire to terminate its membership as soon as possible, the Board of Governors waives the requirement of six months' notice of withdrawal. Accordingly, upon surrender of the Federal Reserve Bank stock issued to the bank, you are authorized to cancel such stock and make appropriate refund thereon. Under the provisions of Section 10(c) of Regulation H, as amended effective September 1, 1952, the bank may accomplish termination of its membership at any time within eight months after notice of intention to withdraw is given. Please advise when cancellation is effected and refund is made.

The certificate of membership issued to the bank should be obtained, if possible, and forwarded to the Board. The State banking authorities should be advised of the bank's proposed withdrawal from membership and the date such withdrawal becomes effective.

Approved unanimously.

Letter to Mr. Woolley, Vice President, Federal Reserve Bank of Kansas City, reading as follows:

This refers to your letter of August 29, 1956, transmitting a copy of a resolution of the board of directors of the Englewood State Bank, Englewood, Colorado, authorizing any Federal Reserve Bank to transmit copies of reports of examination of that member bank to Transamerica Corporation.

In view of the fact that Transamerica Corporation has become a holding company affiliate of the Englewood State Bank, it is felt that copies of reports of examination of such bank made by your examiners subsequent to the time Transamerica Corporation became a holding company affiliate of the bank may be furnished the corporation in accordance with the authorization received from the bank, provided such reports are transmitted and receipts therefor obtained in such manner as will preserve substantially the same restrictions and conditions as to the use, recall and disclosure for publication as those which govern the copies of reports furnished to State member banks pursuant to Form F. R. 410-45-Receipt.

Approved unanimously.

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

Reference is made to your letter of August 28, 1956, submitting the request of Bank of Encino, Los Angeles (Encino), California, for an extension of time within which to establish a branch in the vicinity of the intersection of Ventura and Van Nuys Boulevards, Sherman Oaks, Los Angeles County, California. It appears that the building in which the bank is to be located is expected to be completed on or about December 1, 1956, but the bank has requested a six-months' extension of time within which to open the branch.

After considering the information submitted, the Board concurs in your recommendation and extends to March 29, 1957, the time within which the Bank of Encino may establish the branch in Sherman Oaks.

Approved unanimously.

Letter to Mr. William K. Mendenhall, Jr., Board of Editors, Stanford Law Review, Stanford University, Stanford, California, reading as follows:

This is in response to your letter of July 31, 1956, addressed to the Board's General Counsel, requesting certain information relating to the recently enacted Bank Holding Company Act of 1956.

With respect to your question regarding State legislation which would expressly forbid or permit an out-of-State holding company to acquire bank shares within the State, it is assumed that you have in mind the provisions of section 3(d) of the Bank Holding Company Act which prohibits approval of any application by a bank holding company which would permit it to acquire the voting shares or substantially all the assets of any additional bank in another State unless such acquisition is specifically authorized by the statute laws of such State. No proposals for any State legislation of that kind have come to the Board's attention and we have no present information on the basis of which any such legislation might be anticipated.

You ask how many bank holding companies were excluded because Congress adopted a definition of "bank holding company" based upon ownership or control of 25 per cent of the stock of each of two or more banks. It is almost impossible to give any definite answer to this question on the basis of information readily available to the Board. It may be noted, however, that during the hearings on the bank holding company bill before the Senate Banking and Currency Committee on July 5, 1955, certain tables were submitted by the Board (printed in the report of the hearings at pages 54, 59, and 60) which indicate that as of December 31, 1954, the "two-bank" definition subsequently adopted by Congress would cover at least 46 bank holding company groups, whereas a definition based upon control of 50 per cent or more of the stock of one bank would have covered at least 116 cases, and a definition related to 25 per cent control of one bank would have covered at least 163 cases. As pointed out in footnotes to these tables, however, exhaustive research might disclose an unknown number of additional cases.

The Board has not as yet made any determination of the scope of the provisions of section 4(c)(6) of the Act relating to exemption from the divestment provisions in the case of shares of a company whose activities are of a financial, fiduciary, or insurance nature and are determined by the Board to be so closely related to the business of banking or of managing or controlling banks as to make it unnecessary for the divestment provisions to apply. However, section 5(b) of the Board's Regulation Y indicates that, in order for such a determination to be made, the activities of the company in question must be closely related to the business of banking or of managing or controlling banks "as conducted by such bank holding company or its banking subsidiaries."

As indicated in your letter, mutual savings banks are not excepted from the definition of the term "bank" set forth in section 2(c) of the Act. The principal apparent effect is that a mutual savings bank would be a bank holding company under the Act if it should own or control as much as 25 per cent of the voting shares of each of two banks.

For your information and assistance, there is enclosed a copy of Regulation Y under the statute which has been issued by the Board effective September 1, 1956.

Approved unanimously.

Further consideration was given at this time to the request of Bank of America, New York, New York, for approval in principle of its proposed acquisition from Transamerica Corporation of stock of Banca d'America e d'Italia, Milan, Italy. There was preliminary discussion of this matter at the meetings on August 30 and September 6, 1956, but no decision was reached as to what action the Board should take.

Governor Robertson stated that in the file on the matter he found no reason given to justify investment by Bank of America of more than 15 per cent of its capital and surplus in stock of Banca d'America e d'Italia. He said that while section 25(a) of the Federal Reserve Act permits a larger investment with the approval of the Board, he did not feel that the Board would be warranted in giving its consent in the absence of appropriate reasons stated by the applicant.

Governor Balderston said that he had trouble in understanding the provision proposed to be included in the letter to Bank of America which would state that the Board would be disposed to grant consent to the proposed stock purchase at a cost not exceeding an amount equal to 25 per cent of the capital and surplus of Bank of America, his question being whether 25 per cent was the appropriate figure. In addition, he had grave doubts whether a foreign banking corporation, as distinguished from a bank holding company, should own a bank in Italy which was so dedicated to domestic business as Banca d'America e d'Italia. He could understand

owning a bank in Italy if the Italian bank was primarily devoted to the financing of international trade, but not if the foreign bank, as in this case, had a number of branches and offices doing primarily a domestic business. His preliminary thinking on the matter was that he would like to see the Board include some provision or stipulation which would bring about a reduction in the number of branches and offices from 61 to the four or five apparently necessary to conduct an international business, and he felt that he would even be willing to stipulate that Bank of America would have to branch the Italian enterprise, since if Bank of America had branches in Italy the Board would be sure of its right to examine them.

Governor Robertson suggested a possible situation where an Italian institution wanted to buy a bank in this country, and he asked whether it would be expected that the Italian Government would inquire of the United States authorities for their views on whether the proposal was sound. In other words, his question was whether the Board should ascertain what the Italian Government thought about a proposal which would have as its ultimate effect the elimination of almost 60 banking offices performing a domestic banking business in Italy through a requirement that would reduce the number of offices to four or five engaged in international banking.

Regarding the figure of 25 per cent cited in the draft of letter, Mr. Goodman stated that the selection of the figure was made in a rather

arbitrary fashion. The latest annual report of Transamerica Corporation showed that the stock of the Italian bank was carried at approximately $3.8 million, which would be less than 25 per cent of $18.2 million, the total capital and surplus of Bank of America. At the same time, if Bank of America added $10 million to its capital and surplus, it could invest $7 million in the stock of the Italian bank under the 25 per cent limitation. Although perhaps 25 per cent was not the right figure, he would recommend that whatever the amount invested in the proposed stock purchase, Bank of America be required to increase its capital and surplus by at least a like amount within a reasonable time.

Governor Robertson noted that Transamerica's annual report indicated that the Italian bank's assets totaled over $6.6 million, which made it unlikely that Bank of America could acquire the stock held by Transamerica for $3.8 million, the net carrying value.

Following further discussion of the appropriateness of the 25 per cent limitation in the light of the Italian bank's assets, Governor Balderston said that the discussion tended to reinforce his thought that if an American foreign banking corporation were to put 25 per cent of its capital and surplus into a foreign bank and such bank was taken over through a change in the government of the foreign country, the cognizant American supervisory authority would be in a vulnerable position for having permitted such a large investment.

Governor Mills then made a statement in which he said that if this was a clean and new transaction all the points that had been raised would be valid. However, Banca d'America e d'Italia was an institution owned for many years by interests associated with Bank of America National Trust and Savings Association and the question was whether the Board would prefer to see it continue under the logical ownership and control of those interests rather than under Transamerica, where it did not have a definite place in the family at the present time due to the separation of Transamerica and Bank of America N. T. & S. A. A transfer of the stock to Bank of America, New York, would mean that the Italian bank would return to the control of the group that originally fostered it. The weight of opinion seemed to him to lie very strongly on the side of permitting the Italian bank to return to the Bank of America interests, and for that reason only, he felt that the recommendation contained in Mr. Goodman's memorandum was justified.

Governor Robertson said he thought there was real merit in that approach, but that he also thought it would be inappropriate for the Board, in the absence of justification in the files for making an exception, to approve an investment up to 25 per cent of the capital and surplus of Bank of America when the statute specifies a 15 per cent maximum.

Governor Vardaman stated that after listening to the views expressed by Governors Balderston and Robertson, he felt that aside from

the specific case the Board must consider the whole question of its policy with regard to American banks doing an international business, which in turn raised questions of policy concerning foreign banks operating in the United States. He also said that in his view the basic risk to the stability of Bank of America would be increased by the establishment of a system of direct branches in Italy as opposed to stock ownership in an Italian bank, particularly in the event of expropriation.

Governor Szymczak expressed agreement with the position taken by Governor Mills, stating that if this proposal were something "de novo" it might be appropriate to write in various conditions, but that actually the Italian bank came into existence when Transamerica and Bank of America N. T. & S. A. were very closely related. Under current circumstances, he felt that it was better for the Italian bank to be with Bank of America than with Transamerica. The next question, he said, was whether the maximum investment limitation of 25 per cent of capital and surplus was appropriate, and he considered that a relative question. In this connection, he pointed out that the matter was in a preliminary stage, that negotiations had not yet been entered into, and that approval was asked only in principle. In the circumstances, he felt that the Board should spell out certain tentative conditions and then await further developments. Regarding the right to examine the Italian bank, he said that the question was whether sufficient information could be obtained

through other means to obviate the necessity for examination. One approach might be to take the position that if examinations could not be made and sufficient information was not available otherwise, Bank of America would be requested to establish branches in Italy and transfer operations from Banca d'America e d'Italia to such branches. Personally, he doubted whether Bank of America would want to follow such a course because of the greater range of operations available to the Italian bank than to branches of Bank of America. In response to questions by Governor Robertson, he said that it would also appear preferable for the Italian bank to be owned by Bank of America because of the latter's status as an Edge Act corporation primarily interested in international financing.

Governor Robertson indicated that while he would not dispute the appropriateness of transferring the Italian bank to Bank of America, he did not feel that this should be the basis for the Board's decision, the problem confronting the Board being concerned with the conditions under which Bank of America should be permitted to acquire the stock of the Italian bank.

Following a restatement by Governor Vardaman of questions that he had raised in previous discussions regarding the advisability of reserving the right to examine the Italian bank, Governor Mills said that as he recalled the proposed letter to Bank of America it did not specify that

the Board would actually examine the Italian bank, but that such a right was reserved. Furthermore, as the principle of the right to examine foreign subsidiaries is intended to be reserved in the proposed revision of Regulation K, Banking Corporations Authorized to Do Foreign Banking Business under the Terms of Section 25(a) of the Federal Reserve Act, he therefore thought that expression of the reservation of such a right in a communication to the Bank of America, New York, New York, was entirely consistent with the Board's present approach to the supervision of Edge Act and "agreement" corporations.

Governor Vardaman said that although he recognized the point made by Governor Mills, he had some feeling that the Board should examine the Italian bank regularly if it claimed the right, since if anything went wrong and the Board had not made such examinations, it might be considered remiss. In summary, he felt that the proposed condition regarding the right of examination was not practical and that it would be better from the standpoint of the record to recognize that fact.

Chairman Martin said that while the Board might not want actually to make an examination of the bank because of practical considerations, this was quite a different thing from giving up the right. In this connection, he pointed out that the Board must consider the responsibilities vested in it by the statutes.

After further discussion, Governor Vardaman said that he would go along with a condition reserving the right to examine the Italian bank, but that he considered such a condition an idle gesture.

Chairman Martin then outlined the possible courses of action open to the Board in replying to Bank of America, and the statement was made that the conditions proposed to be stated in the Board's letter would give some indication of the type of conditions that the Board would envisage including in any final approval of the stock purchase transaction. It would be understood, of course, that further developments might cause some of the conditions to be changed in the light of additional information. With respect to approval being conditioned upon an investment not greater than 25 per cent of Bank of America's capital and surplus, Governor Robertson suggested that it might be appropriate to rephrase the letter to refer to the 15 per cent limitation in the statute and ask for reasons which were felt to justify an exception.

Chairman Martin then suggested that the pertinent portion of the letter be worded to state that the Board would be reluctant to approve an investment exceeding 15 per cent of capital and surplus in the absence of sound reasons. Such an approach, he pointed out, would throw on Bank of America the burden of establishing justification.

Following further discussion, it was agreed that the proposed letter would be changed in accordance with Chairman Martin's suggestion as well as in a minor respect referred to by Governor Mills, and that the revised draft would be recirculated to the members of the Board.

Pursuant to a previous understanding, consideration was given at this meeting to the proposed revision of the Board's Regulation K, Banking Corporations Authorized to Do Foreign Banking Business under the Terms of Section 25(a) of the Federal Reserve Act. Following publication of a draft of revised regulation in the Federal Register, a number of comments and suggestions were received from interested parties and from the Federal Reserve Banks, and in addition certain parties visited the Board's offices for discussions with the Board's staff, in some of which discussions Governor Szymczak participated. Messrs. Goodman, Solomon, and Tamagna then prepared an analysis of the various comments that had been received and set forth staff views with respect to them. This analysis was submitted to the Board with a memorandum from Governor Szymczak dated July 10, 1956, in which he stated that he concurred in the staff recommendations with respect to the respective comments and suggestions. In some cases, it was pointed out, alternative proposals had been developed. In his memorandum Governor Szymczak called particular attention to three matters, as follows:

1. The limitations on the maturities of a nonbanking Edge corporation's loans while it has secured obligations outstanding, and the limits on the amount a nonbanking corporation may lend to one borrower. In order to simplify the regulation and its administration, the staff memorandum proposed to allow nonbanking corporations to have loan maturities up to 10 years without any exceptions and to raise the limit on loans by nonbanking corporations to one borrower from 20 per cent of capital and surplus to 50 per cent, with permission to go to 100 per cent when a loan is

partly guaranteed (or participated in) on a concurrent basis by an agency of the United States. Governor Szymczak expressed the belief that such provisions would be desirable, adding that if these proposals were adopted he thought it would be reasonable, although not imperative, to exclude subordinated debentures of non-banking corporations from being treated as capital and surplus.

2. The requirement in the draft revision of the regulation that banking Edge corporations maintain their reserves at the Reserve Bank. Although not feeling as strongly on this point as the staff, because the provision seemed to have little if any monetary significance, Governor Szymczak was inclined to agree that when a banking corporation receives deposits in the United States under a revised Regulation K, the element of competition with member banks was a persuasive reason why they should keep their reserves at the Reserve Bank in the same manner as the member banks with whom they compete.

3. The provisions in the draft regulation bringing "agreement corporations" under the regulation. While having considerable sympathy with the aversion of Morgan & Cie. Incorporated to being subjected to new or different regulations, especially since it is a corporation with only a single branch and has not up to now been subject to more than a relatively short general agreement, Governor Szymczak agreed with the provision bringing "agreement corporations" under Regulation K because he saw no substantial difference between the nature of such a corporation and that of an Edge banking corporation. Therefore, it seemed to him that the Board would not be justified in applying different rules to the two kinds of corporations except as might be required by law.

In a further effort to expedite consideration by the Board of the proposed revision of Regulation K, Messrs. Goodman, Solomon, and Tamagna prepared under date of September 10, 1956, an additional memorandum selecting and summarizing points to which it was felt the Board might wish to give

special attention. This memorandum, which was prepared at the suggestion of Governor Szymczak and had been distributed prior to this meeting, dealt only with comments that were received on the published draft revision of Regulation K and did not touch upon such matters as the provision relating to examination of foreign subsidiaries or the several alternative provisions in earlier drafts of the revision of the regulation. To the memorandum was attached a copy of the proposed revised regulation incorporating the staff recommendations in the light of comments received following publication in the Federal Register.

In reviewing developments since the publication in the Federal Register, Governor Szymczak stated that some of the comments that had been received pertained to matters of language and clarification while others, including certain suggestions received from American Overseas Finance Corporation, were of a fundamental nature. He said that after going over all of the suggestions, the staff had changed the published draft of regulation to incorporate certain minor suggestions not having to do with substance, and the matters of more concern were set forth in the memoranda that he and the staff had submitted to the Board. Governor Szymczak then discussed the three principal points to which he had called attention in his memorandum of July 10 and stated reasons in support of the recommendations made therein. He also drew attention to the matters covered in the staff memorandum of September 10 and said that the Board might

want to discuss those points. He went on to say that after some experience with a revised Regulation K, it seemed likely that the Board would want to make some further amendments, or perhaps it would want to go to the Congress with a request for new legislation.

Governor Mills then made a statement which he began by saying that in view of the quantity of material that had been placed before the Board, it seemed probable that the matter of a revised Regulation K had now reached a point where the Board was about ready to vote. His own opinion was that the proposed revision allowed far too much latitude to the corporations that would be subject to it and that the regulation would impose on the Board very difficult supervisory responsibilities stemming out of the liberality of the regulation both as to the nature of incidental business of a foreign banking corporation and the borrowing limits, which would enable the affected corporations to "lend long and borrow short". Since the draft of regulation had been published in the Federal Register and interested parties had been afforded an opportunity to express their opinions, he proposed to abstain from voting on the proposed regulation rather than to vote against its adoption.

In further comments, Governor Mills said that he would prefer the present Regulation K to the proposed revision, and to deal with specific questions as they arose. In response to a question whether his feeling was equally strong as to the provisions regarding banking and

nonbanking corporations, he said that his objections to both sections were too long and complex to set forth at this time and therefore he would prefer to abstain from voting and divorce himself from further discussion of the proposed regulation. In general, however, he felt that the provisions and spirit of the proposed regulation were in conflict with the proper responsibilities of the Board and in conflict with good banking practices.

Governor Robertson said that although he would be willing to accept the recommendations of Governor Szymczak and the staff with respect to the points covered in their July 10 and September 10 memoranda, he could not go along with the proposed Regulation K in its present form for two reasons. First, he felt that it went beyond the statutory authority of the Board in respect to the extent to which the affected corporations would be permitted to do business in the United States. He expressed the view that the necessary changes to bring the regulation in accord with his position could be made quite easily and said that he had prepared a memorandum outlining his views on the subject. This memorandum pointed out the extent to which the proposed regulation, in his opinion, violated the legislative purpose of the Congress and the manner in which the regulation might be changed to restrict the powers of Edge corporations to conduct business in this country. The second point to which Governor Robertson took exception concerned the fact that the regulation

would give blanket approval to financing (nonbanking) corporations to acquire stock in other corporations. It was his view that such provisions were contrary to the best interests of the American banking system, the public interest, and the interests of the Board itself, and that they also would be in conflict with the philosophy of current bank holding company legislation. Here again he felt that appropriate changes in the draft of regulation could be made quite easily. If amendments were agreed upon in these respects, he said, he would not oppose the proposed regulation although he continued to feel that the best approach to aiding the banking system of this country in financing international trade lay in the direction of expanding the powers of foreign branches of American banks.

Governor Shepardson stated that Governor Robertson had raised points that also had given him some concern, particularly the authority that would be given to nonbanking Edge corporations to acquire stock in other corporations. Like Governor Robertson, he would be inclined to go along with the proposed regulation in other respects if these points were clarified.

Following further discussion of the provisions referred to by Governor Robertson, it was understood that his memorandum would be referred to the Legal Division and then would be distributed to the Board together with a memorandum containing the comments of the Legal Division.

While there appeared to be general agreement with the other provisions of the proposed regulation on the part of the members of the Board, other than Governor Mills, it was agreed to defer a final expression of opinion on such provisions pending further discussion of the points raised by Governor Robertson.

Chairman Martin then commented that Governor Mills had posed the basic issue of whether the Board wished to go ahead with a liberalized regulation in an effort to foster the financing of international trade. Governor Mills, he pointed out, had come to the conclusion that it would be better to leave the regulation in its present form, while another approach would be to conclude that under existing legislation, a regulation such as embodied in Regulation K is unworkable. These constituted issues to which he felt the Board should give further consideration after receiving the memoranda from Governor Robertson and the Legal Division. Personally, he would be disposed to go ahead with the proposed regulation, and in any event he felt that it was important for the Board to move forward in some way. He reiterated the thought that an alternative approach would be for the Board to take the position publicly that in its opinion Regulation K was not usable and that Congressional action, including disclosure of intent, was required.

Governor Balderston said that he had considerable sympathy with an alternative approach such as suggested by Chairman Martin.

After the comment had been made that this subject might be presented to the Senate Banking and Currency Committee in connection with the current study by the Committee of the Federal statutes governing financial institutions and credit, Chairman Martin referred to the luncheon meeting yesterday at which Senator Robertson and others met with the members of the Board. He said that for the purposes of the study, it appeared that a proposal regarding Regulation K could be submitted for the Committee's consideration in general language rather than legislative language.

In a further discussion of how the consideration of Regulation K might best be carried forward in the light of Chairman Martin's comments, it was understood that the next step would be for the Board to review the memoranda from Governor Robertson and the Legal Division.

Messrs. Thomas, Sloan, Marget, Goodman, Furth, and Tamagna then withdrew from the meeting.

Mr. Vest stated that pursuant to the understanding at the meeting yesterday, Mr. Hackley, Assistant General Counsel, had prepared a list of selected legislative amendments which the Board might wish to consider for submission to the Senate Banking and Currency Committee in connection with the current study under the acting chairmanship of Senator Robertson. This list, he said, was intended to include items of a technical or noncontroversial nature on which it was felt that agreement might be reached

quickly, so that the Board would be assured of having some material ready to submit to the Committee by the first of October.

Mr. Vest then said that, as he understood the situation, the meeting yesterday with Senator Robertson clarified the fact that there need be no actual drafting of legislative amendments at this time and also that Senator Robertson did not propose that the various agencies submit at this time fundamental revisions of the law or controversial matters that might bog down the legislation proposed to be submitted to the Congress by the Committee.

Following a statement by Chairman Martin that Mr. Vest's understanding was essentially correct, Governor Vardaman referred to Senator Robertson's request for a draft of statement that he might make on the current study and a draft of statement that might form a preamble to the hearings. It was understood that Governor Vardaman, with the assistance of the staff, would prepare drafts of such documents for the Board's consideration.

Mr. Solomon then withdrew from the meeting and Messrs. Fauver, Assistant Secretary, and Leonard, Director, and Farrell, Assistant Director, Division of Bank Operations, entered the room.

Before this meeting there had been sent to the members of the Board copies of a memorandum from Mr. Farrell dated September 10, 1956, submitting a general outline of procedures for handling the analysis

and consideration of the annual budgets of the Federal Reserve Banks for 1957. The proposed procedures were the same as those approved by the Board in connection with the 1956 budgets.

With reference to the matter of timing, Mr. Leonard pointed out that after the budgets were analyzed a general summary covering all functions would be distributed to the Board about the first week in November so that there might be an opportunity for the Board to act on the budgets before the end of the current calendar year.

Chairman Martin commented that it would be desirable if the Board could consider the budgets before the meeting of the Conference of Chairmen of the Federal Reserve Banks early in December, in order that any matters which the Board wanted to discuss might be taken up with the Chairmen either individually or collectively.

Attention also was called to the fact that last year a committee of Board members was named to review the proposed Reserve Bank budgets with the staff prior to consideration by the full Board and that this committee also made a preliminary review of the proposed budget of the Board in advance of presentation to the full Board.

Following a discussion of the committee plan, Chairman Martin suggested that the procedure for handling the analysis and consideration of the Federal Reserve Bank budgets, as proposed in Mr. Farrell's memorandum, be approved and that further consideration be given to the

question of establishing committees of the Board for the purpose of reviewing with the staff the proposed Reserve Bank and Board budgets for 1957.

There was unanimous agreement with Chairman Martin's suggestion.

Mr. Fauver reported a request that arrangements be made for two members of the French Parliament, currently in the United States with other members of the Parliament on a special tour, to visit the Federal Reserve Building this afternoon at 4:30.

It was understood that Governor Szymczak would meet with the members of the French Parliament.

The members of the staff then withdrew and the Board went into executive session.

The Secretary's Office later was informed that during the executive session the following actions were taken by the Board:

The Board having been advised in a letter dated September 11, 1956, from Chairman Sprague of the Federal Reserve Bank of Boston that Mr. Alfred C. Neal had submitted his resignation as First Vice President of that Bank and that the Board of Directors at a meeting on September 10, 1956, had accepted the resignation and had appointed Mr. Earle C. Latham, currently Vice President, as First Vice President, effective October 1, 1956, for the unexpired portion

of the term ending February 28, 1961, with salary at the rate of $25,000 per annum for the period from the effective date of the appointment through December 31, 1956, all subject to the approval of the Board of Governors, unanimous approval was given to a letter to Chairman Sprague in the following form:

In accordance with the request in your letter of September 11, 1956, the Board has today approved the appointment of Earle O. Latham as First Vice President of the Federal Reserve Bank of Boston, effective October 1, 1956, for the unexpired portion of the five-year term beginning March 1, 1956. The Board also approved payment of salary to Mr. Latham at the rate of $22,000 per annum for the period October 1 to December 31, 1956, if fixed at that rate by the directors of your Bank.

It was agreed to request Chairman Prall of the Federal Reserve Bank of Chicago to ascertain and advise the Board whether Mr. Malcolm P. Ferguson, President of Bendix Aviation Corporation, Detroit, Michigan, would accept appointment, if tendered, as Class C director of that Bank for the remainder of the term ending December 31, 1958, with the understanding that if Mr. Ferguson would accept, the appointment would be made.

It was agreed to appoint Mr. J. Stuart Russell, Class C director of the Federal Reserve Bank of Chicago, as Deputy Chairman of that Bank to succeed Mr. Carl E. Allen, Jr., effective October 1, 1956, when the latter assumes the presidency of the Bank, with the understanding that an appropriate telegram would be sent to Mr. Russell prior to the effective date of the appointment.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following letter to Mr. C. E. Batschelet, Chief of the Geography Division, Bureau of the Census, Washington, D. C.:

We are glad to note from your letter of August 29 that the Geography Division of the Bureau of the Census will undertake the work of identifying latitude and longitude values for selected banks and branches pursuant to the Board's letter of August 15 to the Director of the Bureau of the Census.

It is noted that at the beginning of the current fiscal year the Bureau of the Census changed its basis for determining costs of tasks performed for other agencies, and that as a result the estimated total cost of processing 1,500 addresses of banks and branches will be $3,744, instead of $3,000 as we estimated on the basis of the cost per address previously given to us informally.

As suggested by you, we have signed Parts 1 and 3 of the estimate form enclosed with your letter, thereby accepting your offer to do the work at an estimated cost of $3,744.

Assistant Secretary