Minutes for September 26, 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		

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, September 26, 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. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Sloan, Director, Division of Examinations
Mr. Horbett, Associate Director, Division of Bank Operations
Mr. Solomon, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel

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 the Comptroller of the Currency, Treasury Department, Washington, D. C., reading as follows:

> Reference is made to a letter from your office dated May 23, 1956, enclosing photostatic copies of an application to organize a national bank at Alice, Texas.
>
> Information contained in a report of investigation of the application made by an examiner for the Federal Reserve Bank of Dallas indicates generally satisfactory findings with respect to the factors usually considered in connection with such proposals except as to short-term earning prospects. In view of the preponderance of favorable aspects, the Board of Governors recommends approval of the application.
>
> The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

Approved unanimously.

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

> This refers to your letter of September 18, 1956, and its enclosures, concerning the proposed issue by the International Bank for Reconstruction and Development of its Two-Year Bonds of 1956, dated October 1, 1956, due October 1, 1958. In that letter you state that it is proposed to amend Schedule A attached to the Fiscal Agency Agreement of February 6, 1950, between the International Bank and your Bank to include the bonds in question.
>
> The Board of Governors approves of your Bank acting as fiscal agent in respect of the proposed issue of the International Bank of Two-Year Bonds of 1956, dated October 1, 1956, due October 1, 1958, and approves the execution and delivery by your Bank of an Agreement with the International Bank in the form of the proposed Supplement No. 8 to the Fiscal Agency Agreement of February 6, 1950, between your Bank and the International Bank, enclosed with your letter.

Approved unanimously.

Counsel for Respondent in the current proceeding under section 9 of the Federal Reserve Act against The Continental Bank and Trust Company, Salt Lake City, Utah, had filed with the Board several motions in connection with the matter and Special Counsel for the Board subsequently filed memoranda in opposition. Later, Counsel for Respondent was granted until September 24, 1956, within which to file memoranda responding to those of the Board's Special Counsel and such memoranda were filed with the Board on September 21, 1956, together with other motions. The most urgent of the pending motions were those for continuance of the date of commencement of the hearing beyond October 3, 1956, and those for dismissing the proceeding. In a memorandum from Mr. Vest dated September 24, 1956, copies of which had been distributed to the members of the Board before

this meeting, it was recommended that both of those sets of motions be denied, and there were submitted with the memorandum drafts of two statements and orders to that effect. The memorandum stated that drafts of statements and orders with respect to the other motions, which requested that the Board produce certain documents and records, were being prepared for the Board's consideration. However, in view of the time element it was considered advisable that the Board act on the motions for continuance of the hearing and the motions to dismiss the proceeding without waiting to take action on the motions relating to production of documents and records.

Following explanatory comments by Mr. O'Connell, Governor Balderston commented that the hearing was originally set for September 10, 1956, more than 60 days after the date (July 2, 1956) on which the Notice of Hearing was received by Respondent. In view of the fact that the Statement of Particulars of the Board's Special Counsel, submitted in response to Respondent's Demand for a More Definite Statement of Legal Authority and Jurisdiction and Matters of Facts and Law Asserted, was filed on August 30, 1956, he inquired whether there would be any valid basis for a possible claim on the part of Respondent that a longer interval should be allowed between the date of filing of the Statement of Particulars and the date of commencement of the hearing.

Mr. O'Connell responded that in his opinion Respondent did not gain any substantially increased knowledge from the information subsequently furnished in the Statement of Particulars and that the Notice

of Hearing originally served by the Board sufficiently apprised Respondent, the additional information being furnished more or less as a courtesy. Certain material contained in the Statement of Particulars might have helped Respondent, but it did not make the difference between a proper and an improper notice. Furthermore, Mr. O'Connell said, it would appear that Respondent still had more than adequate time to prepare the case after receiving the Statement of Particulars.

Governor Vardaman suggested that the Board's records show clearly what members of its legal staff participated in the preparation of the statements and orders now proposed to be issued and any similar documents, and Mr. Vest stated that suitable memoranda would be placed in the Board's files.

Certain minor changes proposed in the statements and orders having been agreed upon, unanimous approval was given to statements and orders in the following form, with the understanding that telegraphic advice of the effect of the orders would be sent immediately to Counsel for Respondent, Special Counsel for the Board, and the Federal Reserve Bank of San Francisco, and that copies of the statements and orders would then be sent by air mail to the same parties, as well as to The Continental Bank and Trust Company and the Hearing Examiner:

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, Utah.

STATEMENT AND ORDER ON RESPONDENT'S
MOTION FOR CONTINUANCE
AND SECOND MOTION FOR CONTINUANCE

These matters have come before the Board for consideration on the filing by respondent, The Continental Bank and Trust Company, on September 6, 1956, of Motion for Continuance, with Memorandum in Support thereof, filed on September 21, 1956, Second Motion for Continuance, filed on September 21, 1956, and Memorandum in Opposition to Respondent's Motion for Continuance, filed herein by special counsel for the Board on September 12, 1956. In addition to these pleadings, the Board has had before it, and has carefully studied, the entire record in this proceeding.

In the administrative process, the grant or denial of a continuance is within the discretion of the appropriate administrative authority, N.L.R.B. v. A.J. Siris Products Corp. of Va., 186 F.2d 502; N.L.R.B. v. American Potash & Chemical Corp., 98 F.2d 488; Peninsula Corp. of Seaford, Del. v. U.S., 60 F. Supp. 174, similar to the discretion vested in a trial judge, the decision thereon to be made in the light of facts then presented and conditions then existing. Avery v. Alabama, 308 U.S. 444.

The Notice of Hearing in this matter was received by respondent on July 2, 1956, more than 60 days prior to September 10, 1956 the date set for hearing. Viewed apart from the considerations urged, and subsequently considered in support of a continued date for hearing, the time originally available to respondent in preparing its case appears adequate. On August 9, 1956, the Board issued an order changing the date of hearing to October 3, 1956, due to the unavailability of the trial examiner on the date originally set. Thus, five weeks after notice was received, respondent still had available to it, in which to prepare its case, the same 60-day period, or a total of 90 days from receipt of notice. Section 5(a) of the Administrative Procedure Act (5 U.S.C. sec. 1004) provides, in part, that "Persons entitled to notice of an agency hearing shall be timely informed . . . ." The section does not specify the period of notice to be given by an administrative body in meeting the requirement of timeliness. Nor do the rules or regulations governing hearings conducted by this Board specify such time. Thus, "whether a given period of time constitutes timely notice will depend upon the circumstances, including the urgency of the situation and the complexity of the issues involved in the proceeding." Attorney General's Manual on the Administrative Procedure Act. (1947). p. 46.

Among the circumstances which have been brought to the Board's attention in the instant matter is the alleged insufficiency of the notice received by respondent on July 2. The validity of this contention has been weighed in light of the requirements for such notice under section 5 of the Administrative Procedure Act. Having the benefit of full statement by both parties to this proceeding on the point, the Board is of the opinion, for reasons more fully stated in connection with other motions now pending in this matter, that the original notice of hearing adequately and actually informed respondent of the Board's legal authority and jurisdiction and of the matters of fact and law asserted. In reaching this conclusion, the Board has not relied upon, nor considered, "newspaper reports" of the nature submitted in support of the opposition by the Board's special counsel. However, it has considered a statement by respondent's President, contained in a letter dated July 5, 1956, and addressed to the Board. In that letter, written 3 days after receipt of the Board's notice, Mr. Walter E. Cosgriff, President of The Continental Bank and Trust Company, acknowledged receipt of the Board's notice of hearing and stated, "We are entirely agreeable to having this hearing commence at 10:00 a.m. on September 10, 1956, ..." Said letter contained no suggestion but that the writer, and others representing respondent, were, as of that date, fully prepared to proceed with the hearing as scheduled. On August 13, 1956, one month after Mr. Cosgriff's letter and six weeks after receipt of Notice of Hearing, respondent received the Board's order changing the date of hearing to October 3, 1956. As before, no objection to this date was made by respondent. Counsel for respondent argues that an adequate period should be allowed from the time the Administrative Procedure Act requirements were first met by the Board. The Board agrees but holds that such period has already been afforded respondent, inasmuch as the Board's notice of June 29, 1956, fairly complied with the suggested requirements. Nor can the Board concur in respondent's allegation that it will be prejudiced in the preparation of its case unless the additional time is granted. The reply of the Board's special counsel, in response to respondent's demand for more definite statement of authority and factual and legal assertion, did not so substantially increase the amount or change the nature of the information already available to respondent, either through the original notice itself, or in the materials therein mentioned, as to justify or require a continuance. Furthermore, following receipt of this material there remained more than 30-days time available to respondent before the date set for hearing.

Upon consideration of the interests, expressed and implied, of all parties concerned, including those of the trial examiner and witnesses for both sides, the Board is of the opinion that in view of the continuing corporate responsibilities of the respondent, the commencement of this hearing should not be delayed beyond October 3, 1956. The question whether a continuance should be granted at any time during the course of the hearing, by reason of circumstances that may hereafter arise, would be for the determination of the trial examiner on the basis of the facts presented at the time.

ORDER

For the reasons set forth in the foregoing statement, IT IS ORDERED,

1. That respondent's Motion for Continuance be and the same hereby is denied.

2. That respondent's Second Motion for Continuance be and the same hereby is denied.

This 26th day of September 1956.

By order of the Board of Governors.

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

(SEAL)
Washington, D. C.
September 26, 1956

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, Utah.

STATEMENT AND ORDER ON RESPONDENT'S MOTION THAT HEARING BE DISMISSED FOR LACK OF JURISDICTION AND MOTION THAT PROCEEDINGS BE DISMISSED FOR FAILURE TO COMPLY WITH THE ADMINISTRATIVE PROCEDURE ACT

On June 29, 1956, the Board of Governors issued Notice of Institution of Proceeding and of Hearing in the matter of

The Continental Bank and Trust Company, pursuant to section 9 of the Federal Reserve Act (12 U.S.C., sec. 327). Thereafter, the date of hearing was changed from September 10 to October 3, 1956, by order of the Board dated August 9, 1956. On August 15, respondent filed Demand for More Definite Statement of Legal Authority and Jurisdiction and Matters of Fact and Law Asserted. Statement of Particulars, in response thereto, was filed by the Board's special counsel on August 30, 1956. On September 4, respondent filed Motion That Hearing Be Dismissed for Lack of Jurisdiction, Motion That Proceeding Be Dismissed for Failure to Comply With the Administrative Procedure Act and Motion for Production of Records Relating to This Proceeding. Memoranda in support of these motions, and in opposition thereto, have been filed. This Statement and Order are concerned only with the Motions for dismissal, each of which will be treated separately.

Motion That Hearing Be Dismissed For Lack of Jurisdiction

In this motion it is asserted, in main, that there does not exist any statutory authority permitting the Board to institute or prosecute this proceeding. Decision on this motion requires, first, determination of the nature of the action instituted and, then inquiry as to the source of authority for such action.

Study of the pleadings of both parties reveals the stated purpose of this proceeding, namely, to inquire into and determine the adequacy of respondent's capital and what additional amount, if any, is needed to reflect an adequate capital structure. Respondent's position is that the Board of Governors of the Federal Reserve System has no authority to make such inquiry or determination, nor authority to correct deficiencies, if any, in this regard. The Board is of the opinion that, for the reasons hereinafter stated, it not only has such right but the responsibility under the law to make such determinations and require such corrections.

In the preamble to the Federal Reserve Act, (38 Stat. 251), hereinafter referred to as the Act, Congress expressed its purpose in enacting this legislation. It was, in part:

> "An Act ... to establish a more effective supervision of banking in the United States ...."

Pursuant to this stated purpose, the Act provided for the establishment of Federal Reserve Districts and Banks, all component

parts of the System. It provided further for membership of State banks in this System, and concurrent therewith, directed supervision thereof by the Board of Governors of the Federal Reserve System. Section 9, paragraph 9 of the Act (12 U.S.C., sec. 327) provides:

> "If at any time it shall appear to the Board of Governors of the Federal Reserve System that a member bank has failed to comply with the provisions of this section or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto,... it shall be within the power of the board after hearing to require such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership."

Respondent asserts that the notice herein fails to allege any failure on its part to comply with section 9 of the Act or any lawful regulation made pursuant thereto. The Board does not concur in this conclusion.

The Board's notice referred to the reports of examination made by the Federal Reserve Bank of San Francisco, indicating an inadequacy in respondent's net capital and surplus funds. Special counsel's Statement of Particulars suggests, in this regard, a figure "in the approximate range of $2,400,000 to $2,900,000." Should respondent's net capital and surplus funds prove to be inadequate, such inadequacy might properly be found to violate the terms of the Act and of regulations issued pursuant thereto. Section 9, paragraph 1, of the Federal Reserve Act (U.S.C., Title 12, sec. 321) provides that any State bank:

> "... desiring to become a member of the Federal Reserve System, may make application to the Board of Governors of the Federal Reserve System, under such rules and regulations as it may prescribe, for the right to subscribe to the stock of the Federal reserve bank organized within the district in which the applying bank is located. ... The Board of Governors of the Federal Reserve System, subject to the provisions of this Act and to such conditions as it may prescribe pursuant thereto may permit the applying bank to become a stockholder of such Federal reserve bank."

This should be read together with section 11(i) of the Federal Reserve Act (12 U.S.C., sec. 248(i)) which provides that the Board "shall perform the duties, functions, or services specified in

this Act, and make all rules and regulations necessary to enable said Board effectively to perform the same."

Accordingly, for more than 20 years, the Board's Regulation H has contained provisions substantially the same as the following provisions of section 7 of the current Regulation H, which read:

"Section 7. Conditions of Membership

"Pursuant to the authority contained in the first paragraph of section 9 of the Federal Reserve Act, ... the Board, ... will prescribe the following conditions of membership for each State bank ... and, in addition, such other conditions as may be considered necessary or advisable in the particular case --

"1. Such bank at all times shall conduct its business and exercise its powers with due regard to the safety of its depositors, ...

"2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities....

"If at any time, in the light of all the circumstances, the aggregate amount of a member State bank's net capital and surplus funds appears to be inadequate, the bank, within such period as shall be deemed by the Board to be reasonable for this purpose, shall increase the amount thereof to an amount which in the judgment of the Board shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities."

The close relationship between the statute and the capital requirements stated in Regulation H is evident from section 9, paragraph 11, of the Act (12 U.S.C., sec. 329) which provides that:

"No applying bank shall be admitted to membership unless it possesses capital stock and surplus which, in the judgment of the Board of Governors of the Federal Reserve System, are adequate in relation to the character and condition of its assets and to its existing and prospective deposit liabilities and other corporate responsibilities ...."

This is reinforced by section 9, paragraph 6 of the Act (12 U.S.C., sec. 324) which provides that:

> "All banks admitted to membership under authority of this section shall be required to comply with the reserve and capital requirements of this Act ...."

It is clear that the conditions of membership imposed by section 9 of the Act and described in the Board's Regulation H, necessarily must continue to apply to a bank throughout its membership in the System. This is essential in order to achieve the Act's stated purpose "... to establish a more effective supervision of banking in the United States ...." The continuing nature of these requirements is reflected in the use of the words "... at any time ...." (emphasis supplied) in authorizing the Board to terminate the membership of a bank, after hearing. It is also reflected in the language of section 6, Regulation H, which provides that every State bank, while a member of the Federal Reserve System "... Shall comply at all times with any and all conditions of membership prescribed by the Board in connection with the admission of such bank to membership in the Federal Reserve System; and ...." (emphasis supplied)

In Peoples Bank v. Eccles, et al, 161 F. 2d 636,638 (Ct. App. D.C. 1947, reversed on other grounds 333 U.S. 426) the court stated that the Board "clearly had the statutory right to impose" the conditions of membership in Regulation H relating to maintenance of adequate capital.

For the above reasons, the Board holds that the proceedings herein instituted are authorized under the Act and the regulations issued pursuant thereto and that accordingly, the Motion That Hearing Be Dismissed For Lack of Jurisdiction should be denied.

Motion That Proceedings Be Dismissed For Failure To Comply With the Administrative Procedure Act

Respondent asserts that the Notice of Hearing "does not inform the respondent of the matters of fact and law asserted or of the legal authority and jurisdiction under which the hearing is to be held." In support of this contention, respondent has incorporated by reference its Demand

for a More Definite Statement of Legal Authority and Jurisdiction and Matters of Fact and Law Asserted, dated August 13, 1956. To evaluate the merit of respondent's position, the Board must read the record as it presently appears, including the Statement of Particulars filed herein by special counsel to the Board on August 30, 1956, in response to respondent's Demand for a More Definite Statement. Thus viewing the record, in light of the requirements of the Administrative Procedure Act, the Board is of the opinion that the motion is not well founded.

Section 5(a) of the Administrative Procedure Act requires that persons entitled to notice be timely informed of "(1) ...; (2) the legal authority and jurisdiction under which the hearing is to be held; and (3) the matters of fact and law asserted." First, as to the question of respondent's being informed of the Board's legal authority and jurisdiction, respondent is entitled to a notice which contains, in substance, "... reference to the agency's authority sufficient to inform the parties of the legal powers and jurisdiction which the agency is invoking in the particular case, and thus enable the parties to raise any legal issues they consider relevant." Attorney General's Manual on the Administrative Procedure Act, (1947), p. 46. Notice to respondent stated that this proceeding was instituted pursuant to section 9 of the Federal Reserve Act (12 U.S.C., sec. 327). This section grants to the Board the right, at any time deemed appropriate, to inquire and determine whether a member bank has failed to comply with the provisions of section 9 or regulations made pursuant thereto. Respondent was notified that such inquiry and determination would be made concerning its suggested failure to so comply. The Board is satisfied that a reading of section 9 together with reference to the Board's Regulation H adequately apprises respondent of the legal authority and jurisdiction under which the hearing is to be held.

The same conclusion must be reached as to respondent's contention of the insufficiency of notice as to "matters of fact and law asserted." In addition to the information contained in the Board's Notice, the record reflects receipt by respondent on September 1, 1956, of Statement of Particulars with Respect to Legal Authority and Jurisdiction and Matters of Fact and Law Asserted, filed by the Board's special counsel in response to respondent's demand for more definite statement. In this statement, respondent was furnished with specific answers to specific questions. Notice "is not required to set

forth evidentiary facts or legal argument. All that is necessary is to advise the parties of the legal and factual issues involved." Attorney General's Manual on the Administrative Procedure Act, (1947), p. 47.

ORDER

For the reasons set forth in the foregoing statement, IT IS ORDERED,

1. That respondent's Motion That Hearing Be Dismissed For Lack of Jurisdiction be and the same hereby is denied.

2. That respondent's Motion That Proceedings Be Dismissed For Failure To Comply With the Administrative Procedure Act be and the same hereby is denied.

This 26th day of September, 1956.

By order of the Board of Governors.

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

(SEAL)
Washington, D. C.
September 26, 1956

Messrs. Solomon and O'Connell then withdrew from the meeting.

At the meeting on September 21, 1956, consideration was given to the application of Security National Bank Savings and Trust Company, St. Louis, Missouri, for permission to maintain the same reserves against deposits that are required to be maintained by member banks located outside of central reserve and reserve cities. In view of certain questions raised by Governor Vardaman, the Division of Bank Operations subsequently reviewed the list of member banks in central reserve and reserve cities that had been granted permission to observe "country bank" reserve requirements and found none reported as being located within the downtown business and financial district. As stated in a memorandum from Mr. Horbett dated September 21, 1956, copies of which had been sent to the

members of the Board, there appeared to be no instance in which a central reserve or reserve city bank comparable to the applicable bank by reason of location and type of business had been given permission to carry "country bank" reserves.

Governor Vardaman stated that he had wished to highlight by his comments on the current request the inequity of the present system of member bank reserve requirements. As he understood the situation, the Board was not in a position to grant the present application without new legislation. This seemed unfair, he said, because it was possible to permit other banks in St. Louis, and also other reserve cities, to observe lower reserve requirements when they were doing a similar type of banking business, simply by reason of their being located in an "outlying area".

Following a discussion based on Governor Vardaman's comments and the language of the pertinent legislation, unanimous approval was given to a letter to Mr. Kroner, Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

This refers to your letter of August 28 enclosing an application of the Security National Bank Savings and Trust Company, St. Louis, Missouri, a reserve city bank, for permission to maintain the same reserves against deposits as are required to be maintained by member banks located outside of central reserve and reserve cities.

The Board has given sympathetic consideration to the application and views of the subject bank, since the character of business conducted by it appears to be typical of that conducted by banks located in outlying districts of St. Louis that have been granted permission to carry reduced reserves. Since, however,

the bank is located in the heart of the downtown business and financial district of St. Louis, and since Section 19 of the Federal Reserve Act requires that, to be eligible for such permission, a bank must be "located in the outlying districts of a reserve city or in territory added to such a city by the extension of its corporate charter", the Board concurs in your view that it has no alternative but to deny the subject bank's application.

Should any legislation be enacted which would empower the Board to grant the bank's application without regard to its location, the Board will, of course, be glad to reconsider the matter. As you know, various proposals have been made over the years to change the existing basis for differentials in reserve requirements, which depend on whether banks are located in central reserve cities, reserve cities, or outside such cities.

Governor Robertson said that if the Board so desired he would give a brief statement on Operation Alert 1956 at the joint meeting of the Board and the Presidents of the Federal Reserve Banks to be held tomorrow, with emphasis on the phases of that exercise and subsequent developments which would be of most interest from a Federal Reserve Bank standpoint.

It was agreed that it would be advisable for Governor Robertson to make such a report.

At the meeting of the Board yesterday afternoon it was understood that when all of the members of the Board were present there would be a further discussion of whether to include among the legislative suggestions being sent to the Senate Committee on Banking and Currency in connection with its current study of the Federal statutes governing financial institutions and credit, a recommendation having to do with audits of the accounts of the Board of Governors and the Federal Reserve Banks by the General Accounting Office or by outside auditors.

Accordingly, there was a general discussion of this topic at the beginning of which Governors Vardaman and Mills expressed the view that the subject was of such fundamental importance that any recommendation which might be decided upon should be taken up with the Congress as a separate matter and not included among the lists of recommendations to be sent to the Banking and Currency Committee by the first of October. During the discussion it was pointed out that a bill had been introduced providing for an audit of the System by the General Accounting Office and that a similar bill or bills probably would be introduced at the next session of the Congress, on which the Board might be called to testify.

Chairman Martin said it had been his position to date that in the absence of any further legislation, the law was clear that the System was not subject to audit by the General Accounting Office. He had also taken the position, however, that the Board would be glad to have hearings held on the subject and to present testimony by appropriate persons representing the Federal Reserve System. He felt that the Board must face up to the matter in view of the likelihood of introduction of additional bills and that it would be highly desirable if the System could be in a position to make an affirmative presentation rather than to continue on the defensive.

Mr. Vest recalled that in letters last year to the Comptroller General of the United States and the Chairman of the House Committee on Government Operations the Board took the position that under various statutes relating to the General Accounting Office and the Federal

Reserve System it was clear that the Congress did not contemplate that the Federal Reserve Banks or the Board would be audited by the General Accounting Office, and therefore the Board could not conscientiously accede to any request made to the Comptroller General that he audit the accounts of the Federal Reserve System.

Governor Vardaman said that he considered the Board's position thoroughly sound. He also said, however, that since there was no provision in the law relating to an audit, the Board should recommend the enactment of appropriate legislation.

In a further discussion of the matter, the view was expressed that, as Chairman Martin had indicated, it would be desirable for the Board and the Federal Reserve Banks to develop recommendations that might be presented to the Congress at an appropriate time. The conclusion was reached, however, that it would not be advisable to include a recommendation on this subject among the legislative suggestions submitted for the purpose of the current study by the Banking and Currency Committee, at least initially, because a more fundamental and controversial matter was involved than appeared to be contemplated by the announced scope of the Committee's study. It was also pointed out that the views of the Federal Reserve Banks were not yet available and that it would be well to have a uniform System point of view, if possible, before any recommendations were presented to the Congress. While it was recognized that the Board's own thinking on the matter had not yet become firm to the point of deciding upon any specific proposal among several alternatives that might be

considered, the suggestion was made that the problem could be presented to the Reserve Banks Presidents in general terms at the joint meeting of the Board and the Presidents tomorrow, with a request that the Presidents consider the matter and let the Board have the benefit of their views. It was also suggested that in the meantime the Board's staff could be developing various alternatives for the Board's consideration.

At the conclusion of the discussion, it was agreed to proceed along the lines suggested and to exclude this subject from the list of legislative suggestions to be submitted to the Banking and Currency Committee.

Reference was made to the fact that at the meeting on September 24 a tentative decision was reached to include four recommendations in the list of legislative suggestions to be submitted to the Banking and Currency Committee subject to their being cleared by Chairman Martin with the Secretary of the Treasury. Chairman Martin, who was not present during the discussion of those items, said that the matter had been brought to his attention but he had not yet been able to discuss the items with the Treasury.

Mr. Carpenter stated that a letter had been received under today's date from the office of the Comptroller of the Currency advising that a call would be made upon all national banks on September 28, 1956, for reports of condition as of the close of business September 26, 1956, and that it was proposed to send the usual telegram to all Federal Reserve Bank Presidents requesting that a similar call be made for State member bank condition reports.

The sending of the telegram was approved unanimously.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum dated September 20, 1956, from Mr. Young, Director, Division of Research and Statistics, Governor Shepardson approved on behalf of the Board yesterday the appointment of Richard Sabourin Landry as Economist in that Division, with basic salary at the rate of $5,845 per annum, effective the date he assumes his duties.

Governor Shepardson also approved on behalf of the Board yesterday the following letter to Mr. Wiltse, Vice President of the Federal Bank of New York:

In accordance with the request contained in your letter of September 18, 1956, the Board approves the designation of Howard F. Crumb, John C. Houhoulis, and William P. Tracey as special assistant examiners for the Federal Reserve Bank of New York.

Secretary