

Minutes for October 15, 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>[Signature]</u>	_____
Gov. Szymczak	x <u>[Signature]</u>	_____
Gov. Vardaman	_____	x <u>[Signature]</u>
Gov. Mills	x <u>[Signature]</u>	_____
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u>LES</u>	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, October 15, 1956. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Fauver, Assistant Secretary
 Mr. Riefler, Assistant to the Chairman
 Mr. Thomas, Economic Adviser to the Board

Messrs. Young, Noyes, Garfield, Robinson,
 Dembitz, Brill, Eckert, Gehman, Jones,
 Miller, Weiner, Flechsig, Trueblood,
 and Wernick of the Division of Research
 and Statistics

Messrs. Marget, Bangs, Furth, Katz, Sammons,
 Wood, and Reynolds of the Division of
 International Finance

The members of the Division of International Finance presented a review of the United States foreign trade picture and international financial developments, with emphasis on the relationship of such developments to the United States economy, following which the members of the Research Division presented a summary of domestic business and financial developments.

All of the representatives of those two divisions except Messrs. Marget and Furth then withdrew from the meeting, as did Messrs. Riefler and Thomas, and Messrs. Vest, General Counsel; Sloan, Director, Division of Examinations; Solomon, Assistant General Counsel; Goodman, Assistant Director, Division of Examinations; and Tamagna, Consultant on Savings

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Statistics, Division of Research and Statistics, entered the room.

Pursuant to the understanding at the meeting on October 9, 1956, further consideration was given to 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. As a basis for this discussion, there had been sent to the members of the Board copies of a statement by Governor Robertson in support of his view that the contemplated revision of the regulation contained two features which constituted serious mistakes; i.e., permission for Edge corporations to carry on excessive banking activities within the United States and general advance approval of purchases of stock by nonbanking Edge corporations. This statement had been handed to the Legal Division for an expression of opinion as to whether the provisions of the proposed Regulation K with regard to the features in question were legally permissible under the provisions of the pertinent statute. Accordingly, there had also been sent to the members of the Board before this meeting copies of a memorandum from Mr. Vest dated October 4, 1956, in which the position was taken that the provisions of the proposed regulation would be legally permissible. The memorandum stated, however, that consideration had been given therein only to the matter of legal authority and not to the desirability of the provisions from a policy standpoint.

At the request of the Chairman, Governor Szymczak summarized the various steps that had been taken to date looking toward a revision of Regulation K. In response to a question by Chairman Martin as to the alternative courses of action open to the Board, Governor Szymczak

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then made a further statement in which he referred first to the numerous questions that had been raised by Edge corporations and by the Board's examiners in view of the rather vague language of the statute and the current regulation. It was for this reason, he pointed out, that the Board first instituted steps over two years ago in contemplation of a possible revision of Regulation K, and the subsequent study involved obtaining the views of a large number of persons both from within the System and from the outside. He said that the Board now had the option of abandoning the whole project and handling the various questions that had arisen, and no doubt would arise in the future, on an ad hoc basis. However, that was the very situation which led the Board to decide upon making the study that had now been completed. The real need, Governor Szymczak said, was to have a consensus of the Board concerning the interpretation of the law and the regulation. At a later date, it might be that the Board would wish to go to the Congress with a request for new legislation, but at this stage he doubted whether the Board had arrived at a definite enough position to submit recommendations.

Governor Robertson expressed agreement with Governor Szymczak's view that the Board should make some decision promptly, either by agreeing to a revised regulation which would answer at least part of the questions with which the Board was confronted or by abandoning the proposal for a new regulation and answering such questions on an individual basis. He said that it would be agreeable to him if the Board adopted

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a revised regulation provided certain changes were made in the current draft covering the points mentioned in his memorandum, and he felt that a revised regulation in such form would answer most of the questions that had been raised. He thought that the Board would be in a position to make determinations on the other questions after more experience under the revised regulation, and that nothing would be lost in following such a course. Turning to the memorandum submitted by Mr. Vest, he said that he found no fundamental difference in the position taken in that memorandum and in his own statement, the principal area of disagreement - if there was one - appearing to involve the relative importance that should be attached to (1) the legislative history of the provision written into section 25 of the Federal Reserve Act in 1916 to authorize national banks to invest in stock of corporations which agreed to operate under limitations prescribed by the Board and (2) the language of the Edge Act which was adopted in 1919. Governor Robertson said that he would not go so far as to say that the current statute did not give the Board power to determine what was "incidental" to the international or foreign business of an Edge corporation, but that the activities to which he referred in his memorandum were certainly in the "gray area". The matter seemed to resolve itself principally into a question of judgment, and in his opinion the proposed Regulation K would authorize Edge corporations to conduct in the United States operations which should not properly be construed as "incidental to the corporation's international or foreign business". Therefore, he would propose certain changes in the draft regu-

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lation which would effect some restriction and yet be relatively few in number.

In summarizing, Governor Robertson said that the regulation, with the changes which he would propose, should serve to answer perhaps 95 per cent of the questions before the Board, that over the course of time the Board could consider how it wanted to deal with the remaining matters, and that in his opinion it was important to adopt standards that would provide a means of handling the various questions. He did not think that a regulation, in the form which it would take with his proposed changes, would arouse a great deal of critical comment, except perhaps on the part of Bank of America, New York, New York. He suggested that the Board should be prepared to receive such criticisms as might be made and that, if necessary, the Board could make further changes in the regulation.

Governor Balderston stated that in general Governor Robertson's position was one to which he could subscribe. He would not want to see the Board abandon the project of revising Regulation K in view of the great amount of work that had been accomplished, and he felt that the only justification for such action would be a clear feeling on the part of the Board that new legislation was needed. Consequently, he would favor issuing a revised Regulation K in such form as represented the views of the Board at the present time.

Governor Mills said that although he was in sympathy with the criticisms raised by Governor Robertson and concurred fully in Governor Robertson's views, he had some question as to the status of the proposed

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regulation if such changes were made. He recalled that a draft of the revised regulation had been published in the Federal Register, following which certain changes were made in the light of comments received from the Federal Reserve Banks and parties outside the System. Consequently, he had some question whether the Board would be warranted in issuing without republication a new regulation which would differ in any major respect from the draft previously published.

In a discussion of the point raised by Governor Mills, Governor Robertson said that, as he understood it, the purpose of publishing a draft of a regulation was to obtain comments and suggestions and the Board was free to amend the draft in such respects as it desired. Additional comments by Mr. Vest were to the general effect that, as Governor Robertson had indicated, the purpose of publication of a draft regulation was to invite comments and the Board then might proceed in such manner as it deemed advisable.

Governor Shepardson said that while he had no precise views with regard to the detailed provisions of the proposed regulation, from the standpoint of general policy he was inclined to agree with the views expressed by Governor Robertson and Governor Mills. From a reading of the memoranda prepared by Governor Robertson and Mr. Vest, it occurred to him that the proposed revision of the regulation might have incorporated a more liberal point of view than was actually intended.

Chairman Martin then inquired of Governor Szymczak whether he would prefer the issuance of a revised Regulation K along the lines

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advocated by Governor Robertson or whether he would prefer to have the proposal dropped.

Governor Szymczak responded that the important thing was to have a meeting of the minds on the part of the Board so that those affected by the regulation would know the Board's intent, and that he therefore would favor the adoption of a new regulation in some form. Under the current regulation, he said, it is difficult to reach decisions on various individual questions which form a consistent pattern. Governor Szymczak added that in the early stages of the study which had been made his personal position was on the side of making restrictive interpretations. However, he said, he changed his position in the process of the study to a liberal one because the definition of incidental activities was extremely troublesome, particularly in view of developments in the economy and in business practices since the date of enactment of the pertinent legislation. In substance, he would like to have a meeting of the minds on the part of the Board so that the matter could be carried forward and experience gained which might eventually form the basis for a request to the Congress for new legislation.

In a further discussion, Chairman Martin said that personally he favored a liberal interpretation of the statute and that he did not think the Board would be making any substantial progress by adopting a new regulation in the form now proposed. Consequently, he tended to feel that the preferable course was to seek new legislation. While he would be willing to go along with the proposed revision, it would be

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with the understanding that in his judgment the revised regulation would not answer the problem and might even complicate it. In his opinion, what was really required was a legislative approach that would provide a satisfactory modus operandi to encourage the financing of international or foreign business.

Comments from members of the staff then were requested, and Mr. Goodman referred to the difficulty experienced in examining Edge corporations under the current regulation because of the numerous questions for which answers were not available. In his view, a revised regulation in the general form of the draft developed out of the staff study would be constructive, and in any event he thought there was much to be said for the issuance of a revised regulation that would tend to solve the questions now being encountered.

Mr. Vest expressed personal preference for a regulation in the general form of the published draft, although he could go either way on certain of the points that had been raised regarding incidental activities in the United States. In the thought that the general purpose of the Edge Act was to facilitate foreign trade, he would be inclined to approach a revision of the regulation from a liberal point of view and thus so implement the law as to carry out what seemed to him to be the purpose of the Congress.

Mr. Solomon said that aside from the problem of how to decide particular questions regarding incidental activities, he could not help but feel that the Board would be better off to have some form of regulation that would serve to answer questions rather than to go back to a basis of trying to decide such questions on an ad hoc basis.

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Mr. Marget expressed general concurrence in Governor Robertson's position and said that he hoped the Board could see its way clear to issuing a revised regulation, since the effect of not taking such action might be to indicate to parties outside the System that the Board was unable to reach a conclusion. He stressed the importance of the statements that had been made as to the necessity for dealing with a great many questions not answered by the present regulation.

The discussion then turned to the form which Governor Robertson's suggestions would take when applied to the language of the current draft of revised Regulation K, and Governor Robertson stated that he had available a marked copy of the draft regulation showing his proposed changes. He did not deem them of a sufficiently major nature to require republication of the proposed regulation, and he suggested that the Board might wish to review the changes and decide on the adoption of a revised Regulation K at a meeting this afternoon.

Governor Mills indicated that he had some questions which he could resolve in his own mind only by reviewing a revised copy of the draft regulation thoroughly. If such an opportunity was not available, he would prefer to refrain from participating in the vote on the revised regulation.

Accordingly, it was agreed that copies of the regulation, revised to show the changes proposed by Governor Robertson, would be sent to each member of the Board for review and that there would then be a further discussion of the matter, including the procedures which should be followed in connection with the issuance of a revised regulation if changes of

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the nature proposed by Governor Robertson were regarded favorably. In this connection, Chairman Martin stated that he would review the proposed changes before leaving on his forthcoming trip to Europe and that the Board should feel free to act in his absence if it so desired.

The meeting then adjourned.

Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the following matters relating to the Board's staff:

Salary increase, effective October 21, 1956

Increase in the basic annual salary of Ruth B. Willard, Secretary in the Legal Division, from \$4,075 to \$4,215.

Transfer

Transfer of Sylvia I. Clements, Secretary in the Division of Personnel Administration, to the Division of Examinations, with appointment as Special Assistant Federal Reserve Examiner, effective as of the date of assuming her new duties, with no change in her current basic salary at the rate of \$4,890 per annum and with the understanding that at the end of her tour of duty of approximately one year with the field staff of the Division of Examinations, Miss Clements would return to her present position.

Acceptance of resignations

Ann Koronakos, Secretary in the Division of Personnel Administration, effective October 14, 1956.

Dorothy Ford, Clerk in the Division of Research and Statistics, effective October 12, 1956.

During the day Governor Shepardson also approved on behalf of the Board the following letters to Mr. Diercks,

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Vice President of the Federal Reserve
Bank of Chicago:

In accordance with the request contained in your letter of October 2, 1956, the Board approves the appointment of Frank C. Henderson as an assistant examiner for the Federal Reserve Bank of Chicago.

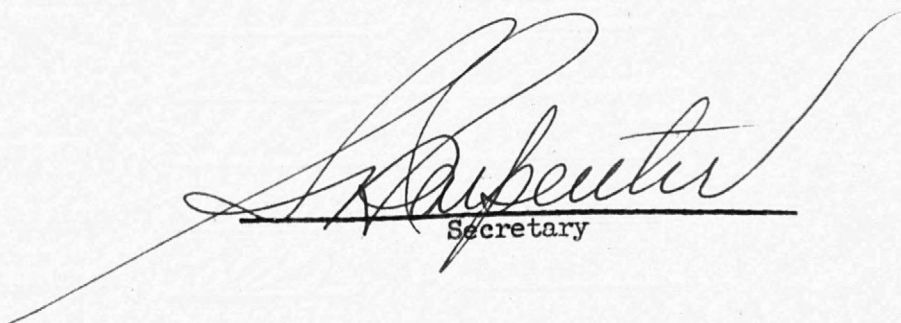
Please advise as to the date upon which the appointment is made effective.

In accordance with the requests contained in your letters of October 9, 1956, the Board approves the appointment of Robert F. Achor, John P. Muench, and Austin Wheatley as examiners for the Federal Reserve Bank of Chicago.

The Board also approves the appointment of the following as assistant examiners for the Federal Reserve Bank of Chicago:

Donald G. Brownell	Harry Pinch, Jr.
Jacques Hendrickson	G. Ward Stearns
Wendall A. Irgang	Wallace K. Bogardus
Richard G. Mickel	James M. Currie
James M. Moran	James D. Wakeman

Please advise as to the dates upon which these appointments are made effective.



Secretary