

Minutes for November 5, 1956

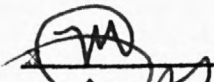



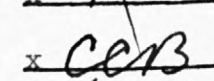
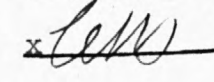
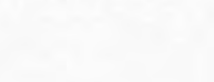
To: Members of the Board

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	<input checked="" type="checkbox"/> 	_____
Gov. Szymczak	<input checked="" type="checkbox"/> 	_____
Gov. Vardaman	<input checked="" type="checkbox"/> 	_____
Gov. Mills	<input checked="" type="checkbox"/> 	_____
Gov. Robertson	<input checked="" type="checkbox"/> 	_____
Gov. Balderston	<input checked="" type="checkbox"/> 	_____
Gov. Shepardson	<input checked="" type="checkbox"/> 	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, November 5, 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. Carpenter, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Thurston, Assistant to the Board
 Mr. Thomas, Economic Adviser to the Board
 Mr. Leonard, Director, Division of Bank Operations
 Mr. Vest, General Counsel
 Mr. Bethea, Director, Division of Administrative Services
 Mr. Sloan, Director, Division of Examinations
 Mr. Marget, Director, Division of International Finance
 Mr. Solomon, Assistant General Counsel
 Mr. Hackley, Assistant General Counsel
 Mr. Hostrup, Assistant Director, Division of Examinations
 Mr. Cherry, Legislative Counsel
 Mr. Thompson, Supervisory Review Examiner, Division of Examinations
 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 follows:

Letter to Mr. Fulton, Chairman of the Committee on Miscellaneous Operations, Conference of Presidents of the Federal Reserve Banks, reading as follows:

This is in reply to your letter of October 25, 1956, in which you request that the Board designate a representative

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or representatives to serve on the four subcommittees under your Committee and on which the late Mr. Myrick had served as an associate.

The Board has made the following designations to serve as associates on the respective subcommittees:

Cash, Leased Wire and Sundry Operations -
John R. Farrell to succeed Mr. Myrick, and
L. P. Bethea to continue as an associate

Retention and Disposal of Records -
Kenneth A. Kenyon

Electronics -
R. F. Leonard

Machine and Tabulating Equipment -
John R. Farrell

Approved unanimously.

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

Reference is made to your letter of October 24, 1956, and enclosure with respect to an extension of time within which the Security Trust and Savings Bank of San Diego, San Diego, California, may establish a branch in the vicinity of the intersection of College Avenue and Federal Boulevard in San Diego.

After considering the information submitted, the Board of Governors extends to June 21, 1957, the time within which the Security Trust and Savings Bank of San Diego may establish the above branch under the authorization contained in the Board's letter of December 21, 1955.

Approved unanimously.

Memorandum from Mr. Bethea dated October 29, 1956, recommending that an invitation to bid on printing and binding the 1957 Federal Reserve Bulletin be extended only to Judd & Detweiler, Inc., as has been the case since 1948; and that this practice be followed each year until such time as it might be determined that other qualified printers would be interested in producing the Bulletin in accordance with the Board's

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schedule and specifications. The memorandum stated that the recommended procedure would of course be contingent upon the continuation of satisfactory service from Judd & Detweiler, Inc.

Approved unanimously.

Mr. Bethea then withdrew from the meeting.

Reference was made to a memorandum from Mr. Hackley dated November 1, 1956, copies of which had been sent to the members of the Board, regarding the extent to which publicity should be given to actions under the Bank Holding Company Act. The memorandum suggested the desirability that some policy be established so that bank holding companies and other interested parties would know what the procedure would be, and also so that all members of the press would receive equal treatment in this respect. The principal questions related to applications under the Act for prior approval of the acquisition of bank stocks and applications for the formation of new bank holding companies. The memorandum reported the Legal Division to be unanimously of the view that it would be desirable to publish in the Federal Register notice of the Board's approval of individual applications. However, there was reported to be a difference of opinion within the Legal Division as to publicity with respect to the receipt of applications. After stating arguments for and against public announcement of the receipt of applications, the memorandum suggested that in this new field of operation it might be desirable to adopt at this time a policy of making public disclosures only to the extent consistent with the actual requirements of the Bank Holding Company Act. Therefore, it was recommended:

- (1) That no public disclosure be made by the Board with respect to the receipt or denial of applications under

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the Bank Holding Company Act, except to the extent that notice of statutory hearings is provided for in Regulation Y, Bank Holding Companies; but

(2) That notice of any order of the Board approving an application under section 3 of the Act be transmitted in accordance with the customary procedure for publication in the Federal Register, and that the applicant be advised in the Board's letter of approval that such notice would be published in the Federal Register.

In commenting on the matter at the request of the Board, Mr. Hackley pointed out that thus far the establishment of a policy in respect to publicity had not been particularly important because the Board had taken only two formal actions under the Bank Holding Company Act. However, the number of applications under the Act would undoubtedly increase in the future and, in addition, it was anticipated that within a few days the Board would receive an application for approval of the formation of a new bank holding company. After discussing the reasons which might be given for and against full public disclosure, Mr. Hackley brought out that if the Board adopted a policy of full disclosure at this stage it might be difficult to revert to a different position even if such a policy was found to be undesirable. All things considered, he felt that for the time being the Board would be on safer ground, and that at the same time interested parties would be adequately protected, if the Board published in the Federal Register only the approval of applications under section 3 of the Bank Holding Company Act.

In response to a question by Governor Vardaman as to how individual inquiries would be handled under such a policy, Mr. Hackley said

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he assumed that any such questions would be handled in about the same way as questions on other matters which come before the Board under the banking laws. The response would be given that the matter was confidential and that the information sought was not of a kind customarily disclosed by the Board. However, if the inquirer could show that he was an interested party the Board might disclose information to him under its Rules of Organization.

Governor Vardaman then asked how aggrieved parties would be protected, to which Mr. Hackley responded that the recommended policy would assume that adequate protection was afforded by the provision of the Bank Holding Company Act giving aggrieved parties the right to obtain judicial review of any order of the Board within a period of 60 days following the entry of the order.

In a further comment, Mr. Hackley recalled that in response to a recent letter from Transamerica Corporation, a bank holding company located in San Francisco, California, asking about the confidentiality of information contained in applications under the Act, the Board responded that its Rules of Organization adequately covered the matter of confidentiality of information and, with respect to the fact of the application itself, that where a hearing was required under the Act a notice would be published in the Federal Register. He also stated that if the Board should decide to adopt a policy of full disclosure it would seem desirable to publish in the Federal Register a notice of intention to adopt such a policy in order to give interested parties an opportunity to comment.

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In a discussion which followed, members of the Board expressed agreement with the view that further experience under the Bank Holding Company Act would be helpful in appraising the questions raised in Mr. Hackley's memorandum and that it would therefore seem prudent to accept Mr. Hackley's recommendations as the basis of a tentative policy and determine at a later date whether any change in that policy would be advisable. In this connection, Governor Robertson pointed out that all of the prospective cases of which he had knowledge would call for a hearing, which would mean of course that a notice would be published in the Federal Register and interested parties would have an opportunity to testify.

At the conclusion of the discussion, it was agreed unanimously to adopt the policy recommended in Mr. Hackley's memorandum subject to further experience under the Bank Holding Company Act which might indicate the desirability of some change in policy.

Mr. Thompson then withdrew from the meeting.

There had been sent to the members of the Board copies of a draft of statement to be made by Governor Robertson on behalf of the Board on November 9, 1956, before the Senate Banking and Currency Committee. The statement would comment on the recommendations for changes in the statutes relating to the Federal Reserve System which were submitted by the Board to the Committee in connection with the current study of the Federal statutes governing financial institutions and credit.

The views expressed by members of the Board concerning the proposed statement indicated that it was regarded as a satisfactory presentation of

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the Board's position in respect to the various legislative recommendations. At the suggestion of Governor Vardaman, it was agreed that certain editorial changes would be made to emphasize that the statement reflected the views of the Board as a whole. Agreement also was reached on a change in language suggested by Governor Mills which would delete a sentence stating, with regard to one of the recommendations, that the Board did not consider the recommendation of great importance and would not wish to press it. This change reflected the view of the Board that the recommendations which had been submitted to the Banking and Currency Committee should be supported fully at this stage in the form in which they were submitted.

With respect to the recommendation for a statutory change which would make all activities of the Federal Reserve Banks as fiscal agents of the United States and of various agencies of the Government specifically subject to supervision and regulation of the Board, Chairman Martin noted that the suggestion was opposed by the Federal Reserve Bank of New York in a letter dated October 30, 1956. It was his understanding that the Treasury might also oppose this recommendation.

In a discussion which ensued, the view was expressed that the recommendation should not be modified at this time. It was suggested that if opposition was expressed during the Committee hearings, testimony could bring out the phase of the matter which was of particular concern to the Board; that is, that requests for the Federal Reserve Banks to undertake new fiscal agency functions should be channeled through the Board.

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In response to questions by Governor Shepardson as to the necessity for using both the words "supervision" and "regulation" and as to the distinctions between those words, it was stated that the use of the word "regulation" inferred that the Board could prescribe certain formal rules, even though in actuality any such rules might more likely assume the form of correspondence. The word "regulate" also was considered to emphasize and make more specific the Board's authority to exercise supervision. In this connection it was pointed out that the Board's recommendation was in general terms and that, if necessary, changes could be made in the draft of statutory language which would leave it still in accord with the broad recommendation.

With regard to the recommendation which would require that directors of Federal Reserve Banks be residents of the district of the particular Reserve Bank, it was noted that the Federal Reserve Bank of New York had indicated that this might be unduly restrictive when applied to the Second Federal Reserve District, where persons engaged in business within the District are sometimes residents of another Reserve District.

On this point, Governor Robertson expressed the view that under any rules which were established some problems were bound to arise. He said that he had difficulty in believing that the problem mentioned by the Federal Reserve Bank of New York could not be overcome.

It was therefore agreed that the recommendation should be supported in its present form.

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Governor Robertson then asked the views of the other members of the Board as to how he might respond most appropriately if questions were raised at the hearing regarding audits of the Federal Reserve System and regarding legislation which would permit member banks to count vault cash as part of their required reserves. The first matter had been the subject of preliminary discussion at the meeting of the Board on Friday, November 2, and Mr. Cherry had been advised of the likelihood that questions also would be raised on the second matter.

With respect to the subject of audits, Governor Robertson expressed the opinion that it would be desirable to have an affirmative approach which might be presented if circumstances made such a course seem desirable. It had occurred to him that it might be advisable in such an event to submit a draft of statutory language which would specifically require audit procedures substantially the same as those now being followed. At his request, Mr. Solomon read drafts of amendments to the appropriate sections of the Federal Reserve Act which might be submitted for this purpose.

Following a discussion of the proposed amendments during which a change in language was suggested by Governor Mills, there was agreement with a suggestion by Chairman Martin that the drafts be distributed to the members of the Board for review.

On the matter of vault cash, Chairman Martin suggested that Governor Robertson's response to any question be along the lines that while the Board was unanimous in feeling that vault cash should be counted as

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part of required reserves, the matter presented some problems from the standpoint of credit policy, particularly from the standpoint of carrying such legislation into effect, that the Board therefore would like to have more time to consider the matter, but that if the Committee wished to submit a bill, the Board would support it.

Governor Mills said that his study of the vault cash proposal caused him to have certain reservations regarding any precipitate action. He suggested that any comment might be to the effect that the Board was favorable to the principle of counting vault cash as part of required reserves.

Agreement was expressed that Governor Robertson's comments should be along the lines suggested by Chairman Martin and Governor Mills.

With respect to section 13b of the Federal Reserve Act, Governor Robertson said that if any questions were raised on the subject he would be inclined to reply that the Board had recommended repeal of that section in the past, that he doubted the wisdom of having the central bank make business loans, but that the Board had not submitted any recommendation because it felt that the matter deserved more thorough consideration than would be possible in the course of the current study.

Governor Robertson said that questions also were likely to arise in regard to the Board's recommendation for legislation which would clarify whether absorption of exchange charges involves a payment of interest on deposits, but that he anticipated no substantial difficulty in stating the Board's position with respect to this recommendation.

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Turning to the likelihood, according to advice received by Mr. Cherry, that questions might be asked regarding the composition and structure of the Federal Deposit Insurance Corporation, particularly concerning whether the Chairman of the Board of Governors should be a member of the Board of Directors of that Corporation, Governor Robertson said he had in mind responding to the effect that while the Board of Governors had not considered the question and he had no firm statement to make, it was his own view that the Chairman of the Board of Governors should not be a director of the Federal Deposit Insurance Corporation. If pressed, he said, he would also be inclined to state that in his opinion the Comptroller of the Currency should not be a director of the Corporation because the directorship would appear to be a full-time job.

Referring back to the matter of section 13b, Governor Balderston inquired whether there would be any feeling on the part of the Board in favor of the maintenance of that section as a standby authority. He pointed out that such authority might be useful in the event of changed domestic or international conditions.

The point raised by Governor Balderston was discussed briefly and varying views were expressed but no conclusions were reached.

The Secretary referred to a memorandum from Mr. Vest dated November 1, 1956, copies of which had been sent to the members of the Board, submitting a draft of statutory language to carry out each of the recommendations that the Board had sent to the Banking and Currency Committee.

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He called attention to the recommendation which related to continuous service of Federal Reserve Bank directors and said that the proposal, as drafted, would vary in one respect from the Board's current policy with respect to the service of Class C directors.

Following a discussion of this point, it was understood that the staff would redraft the amendment so that it would apply to all head office directors the existing policy of the Board with respect to the appointment of Class C directors.

Chairman Martin then suggested that in view of the points mentioned at this meeting and other aspects of the matter that the members of the Board might wish to study at greater length, a further discussion of Governor Robertson's testimony and the Board's legislative recommendations be scheduled for Wednesday, November 7. It was also suggested that the draft of testimony be turned over to Mr. Thurston for editing and that any suggestions in this respect be sent to him.

There was unanimous agreement
with the suggested procedure.

Messrs. Thurston, Thomas, Leonard, Sloan, Hackley, Hostrup and Cherry then withdrew from the meeting.

Further consideration was given to the application of the Central Bank of Turkey for a loan on gold which was discussed most recently at the meeting of the Board on Monday, October 29.

In a review of the status of the matter, Governor Balderston stated that last Friday he received a telephone call from Mr. Hayes,

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President of the Federal Reserve Bank of New York, who said that the Reserve Bank would like, if possible, to have the views of the Board before the meeting of the Bank's directors on Thursday of this week. Mr. Hayes stated, Governor Balderston said, that the officers of the New York Bank would like to have the loan carry interest at the rate of 4 per cent, rather than at the current discount rate of the Bank, in order to reduce the incentive for Turkey to switch loans out of the commercial banks to the Federal Reserve. The officers would also like to have the loan made for a term of six months, rather than the usual three months, because the Turkish authorities had indicated that no assurance of renewal would be requested if it was made on a six-month basis.

At the request of the Board, Mr. Marget then made a statement in which he said first, by way of review, that the making of the loan would be contrary to the set of principles pertaining to gold loans on which the Board and the New York Bank had reached agreement. The loan could not be justified under even the exceptions to the general policy because those exceptions envisage the introduction of a stabilization program by the borrowing country and there was no evidence that the Turkish Government had such a program in operation or in prospect. Mr. Marget also brought out that there had not been any representations by other agencies of the United States Government that unusual considerations argued strongly for the making of the loan. In this respect, he referred to the views which had been expressed by the Department of

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State and by Mr. Clarence B. Randall, Chairman of the Interdepartmental Committee on Aid to Turkey, the tenor of which was to the effect that while there would be no objection to the loan, the decision should be left to the Federal Reserve System.

Mr. Marget also referred from the file on the matter to a memorandum from Mr. Exter, Vice President of the Federal Reserve Bank of New York, prepared following initial discussions with a Turkish representative, which indicated some appreciation on the part of the Turkish representative of factors which would favor sale of the Turkish gold and repurchase of the gold at a later date if conditions from the standpoint of developments in Turkey should permit. Since then, Mr. Marget said, he had received no communication from the New York Bank regarding a change from the initial reaction against making the loan except word that a high official of the Bank felt that there were considerations in this particular case, of a nature not pertinent to the usual gold loan application, which might justify extending the credit.

In response to a question by Governor Vardaman as to the customary procedure in checking on gold loan applications outside the Federal Reserve System, Mr. Marget said that he understood it to be the responsibility of the Division of International Finance, once the Division had decided on a recommendation to the Board based on the usual considerations, to ascertain from the State Department whether there would be any objection on other grounds to making the loan.


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Chairman Martin then suggested that further consideration of the matter be deferred so that he might explore the subject with the Secretary of the Treasury.

Accordingly, it was understood that there would be a further discussion at the meeting on Wednesday, November 7.

The meeting then adjourned.



Secretary