

Minutes for December 20, 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	_____	_____
Gov. Szymczak	x <u>MS</u>	<u>(M)</u>
<u>1/</u> Gov. Vardaman	_____	x
Gov. Mills	x _____	_____
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u>CS</u>	_____

1/ The attached set of minutes was sent to Governor Vardaman's office in accordance with the procedure approved at the meeting of the Board on November 29, 1955. The set was returned by Governor Vardaman's office with the statement (see Mr. Kenyon's memorandum of February 12, 1957) that hereafter Governor Vardaman would not initial any minutes of meetings of the Board at which he was not present. Therefore, with Governor Shepardson's approval, these minutes are being filed without Governor Vardaman's initial.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, December 20, 1956. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary  
Mr. Fauver, Assistant Secretary  
Mr. Leonard, Director, Division of  
Bank Operations  
Mr. Vest, General Counsel  
Mr. Sloan, Director, Division of  
Examinations  
Mr. Horbett, Associate Director, Di-  
vision of Bank Operations  
Mr. Hackley, Associate General Counsel  
Mr. Solomon, Assistant General Counsel

There had been circulated to the members of the Board a 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 November 19, 1956, enclosing photostatic copies of an application to convert the Merchants and Mechanics Bank, Flint, Michigan, into a national banking association and requesting a recommendation as to whether or not the application should be approved.

This bank has been a member of the Federal Reserve System since March 1939. Information in the files of the Board and that supplied by the Federal Reserve Bank of Chicago is generally favorable with respect to the financial history of the bank, its earnings prospects, general character of its management and the convenience and needs of the community served by it. However, the capital structure of the bank has not kept pace with the fairly rapid growth in volume of business, and despite the recent sale of additional common stock it is believed that further strengthening of the capital structure of the institution is desirable. Accordingly, the Board of Governors recommends approval of the application to convert the Merchants

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and Mechanics Bank into a national banking association provided satisfactory assurances are obtained by you with respect to further strengthening of the bank's capital position.

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.

Pursuant to the agreement at the meeting on December 7, Governor Mills had been in touch with Mr. Brawner, Chairman of the Federal Reserve Bank of San Francisco, regarding a possible appointment to the board of directors at the Seattle Branch for the two-year term beginning January 1, 1957. At Governor Mills request the Secretary then read a letter from Mr. Brawner dated December 17 in which he expressed a preference for the appointment of Mr. Lyman Bunting of the Yakima Ice and Cold Storage Company, as he did not know Dr. C. C. French, President of Washington State College, well enough to express an opinion as to whether he would be a desirable director.

After a discussion, it was unanimously agreed to ascertain whether Mr. Lyman Bunting of the Yakima Ice and Cold Storage Company, Yakima, Washington, would be eligible for and would accept appointment, if tendered, as a director of the Seattle Branch of the Federal Reserve Bank of San Francisco for a term of two years beginning January 1, 1957, and to make the appointment if he were eligible and would accept.

Messrs. Young, Director, and Noyes, Adviser, Division of Research and Statistics, entered the meeting at this point.

Prior to the meeting there had been distributed to the members of the Board a draft of letter to Senator Fulbright setting forth the progress

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of the System in developing more adequate statistics of bank-administered personal trusts. This letter stemmed from Senator Fulbright's letter of October 25, 1955, requesting the Board of Governors to cooperate in this matter.

Mr. Young explained that the Fulbright Subcommittee was in the last stages of publishing its report and that it was quite desirable to have this kind of letter in the record before their report was issued.

After discussion, it was agreed unanimously to approve the substance of the draft letter, with the understanding that Mr. Thurston would be asked to review the draft and make appropriate editorial changes.

Secretary's Note: The letter sent on December 21, 1956, over the signature of Chairman Martin, pursuant to the foregoing action read as follows:

In a letter of October 25, 1955, requesting the Board of Governors to cooperate with your Committee, in collecting data on trust department transactions in the stock market during the period from January 1953 to October 31, 1955, you stated:

"The Committee has been impressed with the lack of statistical information for so important an area as bank-administered personal trusts. While we shall pursue our study on the basis of the materials we are requesting from you, I should like to urge that the Board of Governors of the Federal Reserve System lay the groundwork for permanent statistical information in this area, which will provide, on a continuing basis, adequate statistics for sound analysis in future years."

The lack of adequate statistics on personal trust assets has long been a matter of concern to students of financial affairs. For some time, the Board's staff itself has been giving this matter attention in connection with its studies of capital markets, savings, and the flow of funds.

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The principal obstacle to the collection of statistical information in this area lies, as you know, in the very nature of trust department record-keeping practices. Varying administrative characteristics and managerial responsibilities inherent in the different types of fiduciary and agency appointments influence the form and extent of records kept, as do requirements for the preparation of court accountings and tax returns. Although record-keeping form and procedure vary widely among trust institutions, the records typically maintained do not lend themselves to the type of statistical reporting desired for most economic analysis.

For example, the values of assets held, as recorded for internal control purposes, do not reflect current market values; the dollar-control figures employed represent inventory or cost values of trust property, frequently in combination with unit or par values. Most trust institutions maintain subsidiary records containing more current values of assets, obtained incident to periodic reviews of personal trusts, but it is not possible to develop useful statistical data from such sources. Additional difficulties relating to scope and content arise in using available records to compile information on market transactions.

Despite these difficulties, a fresh attempt has been made to develop a feasible data-collection system. In November 1955, a System Committee on Personal Trust Statistics was appointed to consider these problems. The Committee included representatives from the Board of Governors and from six of the Federal Reserve Banks.

This special Committee first applied its efforts to the assembly of statistical data on the common stock holdings and transactions of a group of personal trust funds of commercial bank trust departments, in accordance with your Committee's request. These data were transmitted to you in my letters of February 13 and April 6, 1956, respectively.

The Committee then turned to the long-range problem indicated in the passage quoted above from your letter. Discussions were held with officials of the Trust Division of the American Bankers Association, and with a Special Statistical Committee of that Division. A conference was also held, under the sponsorship of the Bureau of the Budget, with representatives of all Government agencies having an interest in trust statistics in order to ascertain the nature and scope of such interests. The Committee also initiated discussions with

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officials of the Internal Revenue Service to explore possibilities of obtaining meaningful data on a sample basis from fiduciary income tax reports filed with the IRS. While such data would not yield specific data on asset holdings (no balance sheets are filed with fiduciary returns), the information on flows would permit comparison of aggregate income of bank-administered trusts with income of trusts administered by other trustees, thus providing some perspective in the area the Committee was asked to explore.

To determine the feasibility of collecting periodic statistics, the System Committee interviewed trust officers of about 100 banks, in all bank size-groups, located in all Reserve Districts. A statistical reporting form developed by the Committee was tested in these interviews, and other aspects of statistical reporting, such as frequency and date of reporting, were explored.

On the basis of the results of this field survey, the System Committee next proceeded to develop reporting forms for use in a continuing survey. At this stage, the Executive Committee of the Trust Division of the ABA, at its meeting in Los Angeles on October 22, 1956, accepted a recommendation from its Special Statistical Committee to explore the feasibility of developing trust statistics. The approach proposed by the Trust Division of the ABA parallels that evolved by the System Committee, since the two Committees have maintained frequent communications. Accordingly, the System Committee made its forms available to the Trust Division of the ABA and this agency is now using them in conducting a pretest survey. The Executive Committee of the Trust Division of the ABA will decide at its next meeting scheduled for the beginning of February 1957, whether and when to begin regular collection of statistics on personal trust asset holding and transactions in these assets.

If a program of personal trust statistics is authorized for the Trust Division of the ABA, it has been suggested that the ABA Committee consider appointing an advisory committee composed of financial economists, statisticians and officials of trust institutions. Such an advisory committee would assist in the execution of whatever statistical program may be undertaken, and review the quality and the significance of the sample data collected and of the estimates derived from them.

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In view of the statistical and other difficulties revealed by the System Committee's exploratory studies, and the substantial costs involved to both prospective respondents and to the collecting agency, no program to provide new statistical data for the personal trust business would be feasible without the sustained interest and cooperation of trust institution officials. Accordingly, the Board of Governors believes that the initiative taken by the ABA Trust Division is altogether constructive, and that any further steps to encourage the development of personal trust statistics should await the outcome of these efforts.

Federal Reserve officials are now reviewing a comprehensive interim report of the System Committee on Personal Trust Statistics. Meanwhile, the System Committee will continue to press forward on its exploratory work in directions deemed to be constructive.

A letter to the Bureau of the Budget replying to its request for a report on a draft bill "To authorize repayment to the Treasury of amounts paid to Federal Reserve banks for making industrial loans" had been circulated among the members for consideration at this meeting. Governor Robertson said he felt the reply should clearly indicate that there was no objection to turning back these funds to the Treasury and, in addition, that the Board was on record as favoring repeal of section 13b in its entirety at an appropriate time.

After a discussion it was agreed unanimously to approve the draft in the following form:

This is in response to your communication of December 6, 1956, requesting the views of the Board on a draft bill submitted by the Treasury Department "To authorize repayment to the Treasury of amounts paid to Federal Reserve banks for making industrial loans". It is noted that the bill as drafted includes a provision under which the funds would continue to remain available in the Treasury to the Federal Reserve Banks for use, if needed, in making industrial loans.

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This will advise you that the Board of Governors would interpose no objection to favorable consideration of the draft bill. However, as you know, the Board is on record as favoring repeal of section 13b in its entirety at an appropriate time. Any legislation for that purpose would, of course, provide for the return to the Treasury of the amounts paid by it to the Federal Reserve Banks.

At this point Messrs. Leonard, Young, Noyes, and Horbett withdrew from the meeting.

Mr. Sloan then reviewed the highlights of his memorandum of December 12, which had been circulated to the members of the Board prior to the meeting, relating to an informal proposal made by Mr. Peter Billings, Counsel for the Continental Bank and Trust Company of Salt Lake City, to Mr. Mangels, President of the Federal Reserve Bank of San Francisco, as a possible compromise of the requirements for an increase of \$1.5 million in the capital of the Continental Bank and Trust Company. The memorandum described the proposal submitted by Mr. Billings for the consolidation of some banks in Salt Lake City and the adjacent area with the Continental Bank as a possible means of meeting the requirements for additional capital. The proposal was first made orally by Mr. Billings to Mr. Mangels, at which time he emphasized that the proposal was submitted on his own responsibility and without knowledge or approval of Mr. Walter E. Cosgriff, President of the Continental Bank and Trust Company. Mr. Billings had indicated that the proposal was exploratory and, if it appeared to justify further discussion he would be willing to present it more formally.

Mr. Sloan stated that the Division of Examinations had reviewed the proposal on the merits and concluded that because of the additional liabilities assumed by the continuing bank under the proposed merger,



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the increase of only \$1 million in the capital of the continuing bank over the present aggregate capital of the proposed constituent banks would not appear to be adequate. He recommended that Mr. Mangels be requested, preferably by telephone, to advise Mr. Billings that the Board could not give definite consideration to his proposal because it was not in definitive form and had not been approved by Mr. Cosgriff but if the proposal as submitted could be considered definite the Board would not consider the increase of only \$1 million in the capital of the continuing bank over the present aggregate capital of the proposed constituent banks sufficient to provide adequate capital for the continuing institution. Mr. Sloan further recommended that Mr. Mangels be requested to say to Mr. Billings that the informal consideration and rejection of his proposal did not indicate that the Board would be unwilling to receive and consider a more definite and reasonable proposal.

In the discussion that followed, Governor Mills emphasized his concern whether in any informal contacts such as this there might result an implication that the Board would look with favor on any proposal which would result in a more adequate capital structure without resolving the doubts which the Board had concerning the management of the Bank. Also he was fearful that the Board might in some way prejudice its basic position, namely, that the Board did have authority to demand additional capital as a requirement for continued membership in the System.

Governor Robertson indicated complete agreement with all that Governor Mills had said and raised an additional question of the ethics of this procedure whereby Mr. Billings was dealing directly with System officials rather than through the Board's Special Counsel.

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Governor Balderston expressed the view that some of the aspects of the course of action proposed by Mr. Sloan were conflicting. This would be particularly true, he said, in the light of Governor Robertson's comments, and he felt that a reply through Mr. Mangels indicating the Board could not give definite consideration to the proposal because it was not in definitive form, had not been approved by Mr. Cosgriff, and did not provide for adequate capital would be inconsistent with Governor Robertson's point that the whole matter should be taken up with the Board's Special Counsel, Mr. Powell. He felt that if the Board simply said the latter, it had said everything that needed to be said.

After further discussion, it was unanimously agreed (a) that a letter would be sent to Mr. Mangels asking him to convey to Mr. Billings the Board's position that any matter concerning this proceeding should be taken up with the Board's Special Counsel, Mr. Powell, and (b) that Mr. Powell would be informed of the consideration given to this matter by the Board.

Secretary's Note: In accordance with this action the following letter was sent today to Mr. Mangels, President of the Federal Reserve Bank of San Francisco:

This letter refers to your memorandum of December 6, 1956, and your informal discussions with members of the Board and its staff regarding the proposal presented to you by Mr. Peter Billings, Counsel for the Continental Bank and Trust Company of Salt Lake City, Utah.

It will be appreciated if you will advise Mr. Billings that any proposal that he might wish to present at any time with respect to any phase of this proceeding should be taken up with Special Counsel for the Board, Mr. Bolling R. Powell, Jr.

The Secretary then indicated he had received word from Mr. Leedy, Chairman of the Presidents' Conference, regarding the holding of the next

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Presidents' Conference. Inasmuch as there would probably be a meeting of the Federal Open Market Committee on January 29, Mr. Leedy was suggesting that the meeting of the Presidents' Conference be held on Monday, January 28, and that the joint meeting of the Presidents with the Board be held on the afternoon of January 29, 1957.

There was unanimous agreement with this suggestion.

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

The Secretary's Office later was informed by Governor Shepardson that the Board approved during the executive session increases in the basic annual salaries of the following members of the official staff in the amounts indicated, effective January 1, 1957:

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Office of the Secretary</u>		
Merritt Sherman, Assistant Secretary		\$14,250	\$14,500
Kenneth A. Kenyon, Assistant Secretary		11,250	11,750
Clarke L. Fauver, Assistant Secretary		11,825	12,250
	<u>Legal</u>		
Jerome W. Shay, Assistant General Counsel		12,000	12,500
	<u>Research and Statistics</u>		
Albert R. Koch, Assistant Director		13,975	14,500
	<u>Bank Operations</u>		
Gerald M. Conkling, Assistant Director		12,000	12,500

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<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Bank Operations</u>		
John R. Farrell, Assistant Director		\$11,500	\$12,250
	<u>Examinations</u>		
Arthur H. Lang, Chief Federal Reserve Examiner		13,750	14,000
Henry Benner, Assistant Director		13,750	14,000
Glenn M. Goodman Assistant Director		13,250	13,500
	<u>Personnel Administration</u>		
H. Franklin Sprecher, Assistant Director		12,250	12,500
	<u>Office of the Controller</u>		
M. B. Daniels, Assistant Controller		11,250	11,750

The meeting then adjourned.

Secretary's Note: On December 19, 1956, Governor Shepardson approved on behalf of the Board the following items:

Memorandum dated December 14, 1956, from Chairman Martin recommending approval of a travel voucher as submitted by Mr. Riefler, Assistant to the Chairman, covering his recent trip to Europe, authorized by the Board on September 5, 1956, which had been prepared on a per diem basis at \$15 per day for the entire trip (except aboard ship when actual expenses are claimed).

Letter to Dr. Frederic C. Chapman, 1150 Connecticut Avenue, N.W., Washington, D. C., reading as follows:

The annual physical examination for each employee in the cafeteria of the Board of Governors of the Federal Reserve

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System will be continued during 1957 on the same basis as set forth in our letter to you of December 22, 1953.

I have been advised by the Division of Personnel Administration that these arrangements have worked out satisfactorily and also that the fee of \$100 for the calendar year 1957 is agreeable with you. The number of examinations to be conducted will be substantially the same as in 1956. It is understood that the examinations will begin on February 13, 1957, and will be conducted in the Board's Health Service Department each Wednesday morning from 10:30 to 11:30 until all cafeteria employees are examined.

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

Reurlet December 14, 1956, Board approves designation of John T. Fowler as special assistant examiner for Federal Reserve Bank of Kansas City.

It is noted that members of Mr. Fowler's family have interests in three nonmember banks in Kansas and it is understood that he would not be permitted to participate in any examinations of such banks or institutions in direct competition therewith.

Governor Shepardson today approved on behalf of the Board the following items:

Memoranda dated December 10, 1956, from Mr. Sloan, Director, Division of Examinations, recommending that the basic annual salaries of the following persons in that Division be increased in the amounts indicated, effective December 30, 1956:

<u>Name and title</u>	<u>Basic annual salary</u>	
	<u>From</u>	<u>To</u>
Brenton C. Leavitt, Supervisory Review Examiner	\$9,635	\$10,320
Fred W. Troup, Supervisory Review Examiner	10,065	10,320

Memorandum dated December 18, 1956, from Mr. Kelleher, Assistant Director, Division of Administrative Services, recommending that Helen Louis Sweeney, Clerk in that Division, who has been on leave without pay

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since June 20, 1955, be returned to a salary status on a part-time basis (four-hour day), with basic annual salary at the rate of \$1,963 per annum, effective the date she resumes her duties.

Memorandum dated December 14, 1956, from Mr. Vest, General Counsel, recommending that the Division of Personnel Administration be authorized to take appropriate action to process Dorothy V. Brooke and Hallie A. Desmond, Secretaries in the Legal Division, for top security clearance.

Letters to Mr. Latham, First Vice President, Federal Reserve Bank of Boston, reading as follows:

In accordance with the request contained in your letter of December 13, 1956, the Board approves the appointment of William Adrian Van Aartsen as an examiner for the Federal Reserve Bank of Boston. Please advise as to the date upon which the appointment is made effective.

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In accordance with the request contained in your letter of December 12, 1956, the Board approves the appointment of Weston Leonard Bonney as an examiner for the Federal Reserve Bank of Boston. Please advise as to the date upon which the appointment is made effective.

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In accordance with the request contained in your letter of December 12, 1956, the Board approves the appointment of Francis C. Albertson as an examiner for the Federal Reserve Bank of Boston. Please advise as to the date upon which the appointment is made effective.

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Letter to Mr. Armistead, Vice President, Federal Reserve Bank of Richmond, reading as follows:

In accordance with the requests contained in your letters of December 17, 1956, the Board approves the appointment of Bernard L. Cummings, Chester D. Porter, Jr., and John T. McClintock as examiners for the Federal Reserve Bank of Richmond. Please advise the Board if the appointments are not made effective on January 1 1957, as planned.

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Secretary's Note: Pursuant to the action taken by the Board on December 12, 1956, the following telegrams were sent today, it having been ascertained that Messrs. Moore and McBride and Dr. Longwell would accept the appointments:

To Mr. Joseph H. Moore, Charleston, Missouri

Board of Governors has appointed you Deputy Chairman Federal Reserve Bank of St. Louis for 1957. Appreciate acceptance by collect telegram. Please withhold announcement of appointment until Board later announces appointments at all Reserve Banks and branches.

To Mr. Pierre B. McBride, President, Porcelain Metals Corporation, Louisville, Kentucky

Board of Governors has appointed you Class C director Federal Reserve Bank St. Louis for three-year term beginning January 1, 1957, and, upon your acceptance, expects also to designate you Chairman and Federal Reserve Agent at St. Louis Reserve Bank for 1957. Your acceptance by collect telegram would be appreciated.

It is understood that you do not hold public or political office and are not an officer, director, employee, or stockholder of any bank. Should situation change in these respects during your tenure, please inform Board of Governors.

It is assumed that, if you accept Class C appointment, you will resign as director Louisville Branch effective December 31, 1956.

It will be appreciated if you will withhold announcement of appointment until Board announces appointments at all Reserve Banks and Branches near end of year.

To Dr. John Harwood Longwell, Dean, College of Agriculture, University of Missouri, Columbia, Missouri

Board of Governors has appointed you Class C director Federal Reserve Bank St. Louis, effective January 1, 1957, for unexpired portion of term ending December 31, 1958. Your acceptance by collect telegram would be appreciated.

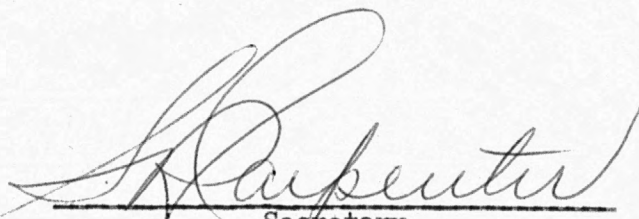
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It is understood that you do not hold public or political office and are not an officer, director, employee, or stockholder of any bank. Should situation change in these respects during your tenure, please inform Chairman St. Louis Bank.

It will be appreciated if you will withhold announcement of appointment until Board announces appointments at all Reserve Banks and Branches near end of year.

We should like to know how you wish your name and principal academic position shown in Board's announcement and publications.

  
Secretary