

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, December 28, 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. Sherman, Assistant Secretary
 Mr. Vest, General Counsel
 Mr. Sloan, Director, Division of
 Examinations
 Mr. Masters, Associate Director,
 Division of Examinations

The following matters, which had been circulated to the members of the Board, were presented for consideration and the action taken in each instance was as stated:

Letter to Mr. Powell, President, Federal Reserve Bank of Minneapolis, reading as follows:

Reference is made to your letter of December 17, 1956, advising that the Board of Directors has authorized the adoption of a new hospital-surgical plan offered by the Montana Physicians' Service to employees at the Helena Branch.

The Board of Governors interposes no objection to the assumption of the increased expense by the Federal Reserve Bank of Minneapolis in connection with the adoption of the new plan as described in your letter.

Approved unanimously.

Letter to Mr. Smith, Federal Reserve Agent, Federal Reserve Bank of Dallas, reading as follows:

In accordance with the request contained in your letter of December 12, 1956, the Board of Governors approves the appointment of Mr. C. H. Schriewer, as Federal Reserve Agent's Representative at the San Antonio Branch to succeed Mr. Fred J. Schmid.

12/28/56

-2-

This approval is given with the understanding that Mr. Schriewer will be placed upon the Federal Reserve Agent's payroll and will be solely responsible to him or, during a vacancy in the office of the Federal Reserve Agent, to the Assistant Federal Reserve Agent, and to the Board of Governors, for the proper performance of his duties. When not engaged in the performance of his duties as Federal Reserve Agent's Representative he may, with the approval of the Federal Reserve Agent, or, in his absence, of the Assistant Federal Reserve Agent, and the Vice President in charge of the San Antonio Branch, perform such work for the Branch as will not be inconsistent with his duties as Federal Reserve Agent's Representative.

It is noted from your letter that Mr. Schriewer will execute the usual oath of office, which will be forwarded to the Board with advice as to the effective date of his appointment.

Approved unanimously.

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

On November 29, 1956, Mr. Millard transmitted to the Board a letter dated November 20 from Mr. W. R. Bimson, President of Arizona Bancorporation, enclosing that company's registration statement under the Bank Holding Company Act. Mr. Bimson also requested a "ruling" from the Board of Governors that Arizona Bancorporation is not subject to the Bank Holding Company Act of 1956.

It is the understanding of the Board that Arizona Bancorporation owns in excess of 25 per cent of the voting shares of Bank of Douglas but does not own, control, or hold with power to vote, 25 per cent or more of the voting shares of any other bank or of a bank holding company. It is also understood (1) that Arizona Bancorporation does not control in any manner the election of a majority of the directors of any other bank, and (2) that trustees do not hold 25 per cent or more of the voting shares of any bank for the benefit of the shareholders of Arizona Bancorporation.

On the basis of the facts stated in the preceding paragraph, it is the opinion of the Board of Governors that Arizona Bancorporation is not a bank holding company as that term is

12/28/56

-3-

defined in section 2(a) of the Bank Holding Company Act, and it will be appreciated if you will inform Mr. Bimson to that effect. It should be mentioned, of course, that although administration of the Act is vested in the Board, its enforcement as a criminal statute falls within the jurisdiction of the Department of Justice, and conceivably the Board's interpretation might not be followed by that Department if it should have occasion to consider the matter.

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks, reading as follows:

At its meeting on September 26-27, 1956, the Conference of Presidents approved recommendations of the Subcommittee on Cash, Leased Wire and Sundry Operations relating to the telegraphic transfer of funds. The Conference also approved the suggestion that the effective date of revised instructions on this subject be deferred pending the determination of the requirements of a related study. The Board has now been advised by the Chairman of the Committee on Miscellaneous Operations that the issuance of the instructions need no longer be deferred.

The Board of Governors concurs in the action of the Conference of Presidents and has revised the instructions, effective January 15, 1957. The revised instructions, as set forth below, are in the form recommended by the Subcommittee in Exhibit B of its report dated August 1, 1956:

INSTRUCTIONS REGARDING TELEGRAPHIC TRANSFERS OF FUNDS

Transfers of Bank Balances for and to Member Banks

Telegraphic transfers of funds between Federal Reserve banks (which as herein used shall include branches of Federal Reserve banks) of bank balances in multiples of \$1,000 will be made without charge for member banks to member banks.

The term "bank balance" shall be construed to mean an accumulation of funds comprising an established account maintained by a member bank with its Federal Reserve bank or with another member bank.

The descriptive data in telegrams transferring bank balances without charge must be limited to the name of the sending member bank, the name of its correspondent member bank

12/28/56

-4-

requesting the transfer, the name of the member bank receiving credit, and the name of its correspondent member bank.

Other Transfers for Member Banks

Telegraphic transfers of funds for any purpose and in any amount and without limitation as to descriptive data will be made for and paid to member banks subject in each case to a charge (except transfers of bank balances in multiples of \$1,000 as described above) which will approximate but not exceed the commercial wire rate for the telegram or telegrams involved in the transfer. While such transfers will be accepted from and paid to member banks only, they may be for the use of any bank, individual, firm or corporation.

At the request of member banks, telegraphic transfers of bank balances in multiples of \$1,000 will be made to non-member clearing banks subject to a charge as outlined in the preceding paragraph.

Charges for Transfers

When a Federal Reserve bank makes a charge against a member bank in connection with a telegram sent to or received from another Federal Reserve bank, such charge should be based on the commercial wire rate (without tax on messages transmitted over the leased wires) regardless of whether the message is transmitted over leased or commercial wires. Proceeds of such charges shall be retained in each case by the Federal Reserve bank assessing the charge.

Messages - Clear language or in code

All messages involving the transfers of funds sent by form transmission equipment over the leased wires shall be in clear language and include Federal Reserve code test word. Messages involving the transfers of funds sent over the leased wires by conventional equipment shall be in code and shall include Federal Reserve code test word.

Messages involving the transfers of funds sent by TWX equipment or by commercial wires shall be sent in Federal Reserve code and include Federal Reserve test word.

Advice of Credit

In addition to the usual mail advice to the bank receiving credit for telegraphic transfers of funds, immediate advice by

12/28/56

-5-

telegraph, telephone, or otherwise, should be given by the Federal Reserve bank receiving the transfer in cases where the sending bank or the credited bank has stated that other than the usual mail advice is necessary, or where the nature of the transaction or the amount involved indicates that the additional expense is justified, as to which the receiving Federal Reserve bank will exercise its discretion.

Long distance telephone charges and telegraph charges, if any, in connection with such immediate advices should be charged to the member or nonmember clearing bank receiving credit unless the sending bank has requested that such expenses be charged to its account.

Losses, if any

Any loss resulting from negligence on the part of the Federal Reserve System in connection with the telegraphic transfers of funds shall be borne by the sending Federal Reserve bank, unless responsibility definitely can be placed upon the Federal Reserve bank to which the telegram was addressed.

Requests for transfers--Closing Hours

Requests for telegraphic transfers of funds for consummation on date of receipt should not be accepted by Federal Reserve banks later than thirty (30) minutes prior to the official closing hour of the Federal Reserve bank to which transfer is to be made; provided, however, any Federal Reserve bank may agree with any other Federal Reserve bank to accept up to a later hour requests for transfers for consummation on date of receipt if so authorized by the Federal Reserve bank receiving credit.

Any transfer requested after the established hour may be consummated on date of receipt at the discretion of the Federal Reserve bank receiving credit.

Uniform Paragraphs in Circulars

The following paragraphs under the respective headings should be included by all Federal Reserve banks in their circulars to member and nonmember clearing banks relating to telegraphic transfers of funds between Federal Reserve banks and branches:

12/28/56

-6-

Transfers of Bank Balances for and to Member Banks

Telegraphic transfers of funds between Federal Reserve banks (which as herein used shall include branches of Federal Reserve banks) of bank balances in multiples of \$1,000 will be made without charge for member banks to member banks.

The term "bank balance" shall be construed to mean an accumulation of funds comprising an established account maintained by a member bank with its Federal Reserve bank or with another member bank.

The descriptive data in telegrams transferring bank balances without charge must be limited to the name of the sending member bank, the name of its correspondent member bank requesting the transfer, the name of the member bank receiving credit, and the name of its correspondent member bank.

Other Transfers for Member Banks

Telegraphic transfers of funds for any purpose and in any amount and without limitation as to descriptive data will be made for and paid to member banks subject in each case to a charge (except transfers of bank balances in multiples of \$1,000 as described above) which will approximate but not exceed the commercial wire rate for the telegram or telegrams involved in the transfer. While such transfers will be accepted from and paid to member banks only, they may be for the use of any bank, individual, firm or corporation.

At the request of member banks, telegraphic transfers of bank balances in multiples of \$1,000 will be made to nonmember clearing banks subject to a charge as outlined in the preceding paragraph.

Member banks should prepay the cost of telegrams to their Federal Reserve bank when requesting transfers that are subject to a charge.

Advice of Credit

Mail advice of credit for all telegraphic transfers of funds will be given by the Federal Reserve bank receiving the transfer to the member or nonmember clearing bank receiving credit therefor and, in addition, immediate advice of credit, by telegraph, telephone, or otherwise, will be given when the bank receiving credit or the bank requesting the transfer has asked for such immediate advice, or where the nature of the transaction, or the amount involved, indicates that the additional expense is justified, as to which the receiving Federal Reserve bank will exercise its discretion.

12/28/56

-7-

Long distance telephone charges and telegraph charges, if any, in connection with such immediate advices will be charged to the member or nonmember clearing bank receiving credit unless the sending bank has requested that such expenses be charged to its account.

LIABILITY OF THE FEDERAL RESERVE BANK

The Federal Reserve Bank of will use due diligence and care in the transfers of funds by telegraph to the receiving Federal Reserve bank for credit to the account of the payee bank, but will not be responsible for errors or delays caused by circumstances beyond its control.

This letter supersedes the Board's letters of June 12, 1939 (S-164), March 9, 1948 (S-1016), and December 18, 1950 (S-1225).

Approved unanimously.

There were presented telegrams proposed to be sent to the following Federal Reserve Banks approving the establishment without change by those Banks on the dates indicated of the rates of discount and purchase in their existing schedules:

Atlanta	December 24
New York	December 27
Cleveland	December 27
Richmond	December 27
Chicago	December 27
St. Louis	December 27
Minneapolis	December 27
Kansas City	December 27
Dallas	December 27
San Francisco	December 27

Approved unanimously.

Before this meeting there had been circulated to the members of the Board a memorandum dated December 14, 1956, from the Division of

12/28/56

-8-

Examinations with respect to the granting of trust powers to national banks in terms other than those specified in section 11(k) of the Federal Reserve Act. The memorandum, which had been prepared as a result of an application by the First National Bank of Wycoff, Wycoff, New Jersey, for authority to act as custodian, a fiduciary power not specifically enumerated in section 11(k) of the Federal Reserve Act, recommended that the Board adopt a policy under which it would grant to national banks applying therefor specific fiduciary powers authorized by the law where such powers might not be specified in section 11(k) of the Federal Reserve Act.

Vice Chairman Balderston called upon Mr. Masters, who reviewed the policy that had been followed for many years under which the Board granted trust authority to national banks only in the specific terms of section 11(k). He stated that the practice had been followed to avoid the necessity of interpretation by the Board's staff of the various State laws to determine the question of legal authority of a State bank to act in specifically named fiduciary capacities, since the Board had always considered it wise not to attempt to pass upon questions involving interpretation of State law. Mr. Masters referred to a memorandum that had been prepared by Mr. Vest on April 1, 1931, on this subject. He noted also that the policy followed in the past had been to grant the ninth or omnibus power in lieu of granting a desired specific power not enumerated in section 11(k), but that this generally had been reserved for national banks applying for full trust authority since the effect of granting that power was to authorize a bank to exercise any or all

12/28/56

-9-

fiduciary powers that competing State institutions might legally exercise.

Mr. Masters went on to say that in an increasing number of cases national banks had sought to obtain specific authority, particularly to act as transfer agent, fiscal agent, paying agent, and custodian of corporations or as agent and custodian for individuals. This occurred usually where provisions of State law designated such functions as fiduciary in character and where, as in the present instance, a national bank desired to exercise a specific power not enumerated in section 11(k) but did not desire to exercise the full range of trust powers permitted by the statutes. Mr. Masters felt that a change in policy to grant authority for only the specific power desired by a bank would introduce into the Board's actions an administrative flexibility that was desirable and that it would also have a desirable effect in that national banks would not be tempted to ask for full trust powers in order to obtain authority to exercise the few specific powers not enumerated. This would involve careful consideration of the specific language to be used in the Board's trust power permits, he noted, and he stated that the proposal contemplated that any such grant of authority would be qualified by a phrase to the effect that the specific authority was to be exercised in the same manner and to the same extent that State banks, trust companies, or other corporations which came into competition with national banks were permitted to act under the laws of the State concerned.

12/28/56

-10-

Mr. Vest stated that while the proposed change would represent a departure from a policy that the Board had followed for a great many years, he felt it was legally permissible. While there was the possibility of minor administrative difficulties in cases where the State law was not clear regarding the authority for trust powers, Mr. Vest felt that this would present no material difficulty. In a discussion that followed, Mr. Vest expressed the further view that he assumed the Board would give very careful consideration to any grant of authority in the manner suggested and that in a case where the statute of a State was ambiguous it would probably be necessary for the Board to be quite specific in its grant of authority.

Unanimous approval was given to the recommendation contained in the memorandum from the Division of Examinations with respect to a change in the policy of granting specific fiduciary powers authorized by State law although such powers may not be specified in section 11(k) of the Federal Reserve Act.

Unanimous approval was also given to a letter to the Board of Directors, First National Bank of Wycoff, Wycoff, New Jersey, reading as follows, for transmittal through the Federal Reserve Bank of New York:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as executor and administrator, and as custodian to the extent that State banks, trust companies, or other corporations which come into competition with national banks are permitted so to act under the laws of the State of New Jersey. The exercise of all such powers shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

12/28/56

-11-

A certificate covering such authorization is enclosed.

Messrs. Sloan and Masters withdrew from the meeting at this point and Messrs. Riefler, Assistant to the Chairman, and Thomas, Economic Adviser to the Board, entered the room.

Vice Chairman Balderston stated that late yesterday afternoon he had received a memorandum addressed to Chairman Martin by Mr. Saulnier, Chairman of the Council of Economic Advisers, dated December 27, 1956, attaching a section of Chapter 4 of the President's Economic Report for January 1957 and requesting that comments be returned to him not later than Saturday, December 29, 1956.

Vice Chairman Balderston read the report submitted and there followed a discussion of a recommendation that there be appointed a committee to be composed of members of the Congress and distinguished and experienced citizens from outside Government to study the adequacy of financial facilities and the laws and regulations which covered their operation. During the discussion, question was raised whether the language of the proposed recommendation might be inconsistent with the language of the statement submitted by Dr. Hauge, Special Assistant to the President, discussed at the meeting of the Board yesterday, and it was understood that Vice Chairman Balderston would clarify this point in a telephone conversation with Dr. Hauge.

Another paragraph in the part of the report submitted repeated a recommendation made in the last two Economic Reports that the Congress

12/28/56

-12-

consider the establishment of a system of Federal insurance of share accounts in credit unions.

Following a discussion, unanimous approval was given to a letter for Vice Chairman Balderston's signature addressed to the Honorable Raymond J. Saulnier, Chairman of the Council of Economic Advisers, reading as follows:

Thank you for sending us for comment certain sections of Chapter 4 of the President's Economic Report for January, 1957.

Our only comment relates to the proposal that Congress consider establishing a system of Federal insurance of share accounts in Credit Unions. With respect to this same proposal last year we wrote you: "As you doubtless are aware, we have serious reservations on the proposal to insure share accounts of the Credit Unions. In our judgment the proposal would not strengthen the financial structure."

This comment still expresses our view.

The Secretary reported that advice had been received today from the Office of the Comptroller of the Currency advising that on January 3, 1957, a call would be made on all national banks for reports of condition as of the close of business, Monday, December 31, 1956. He stated that in accordance with the usual procedure, it was proposed to send a telegram to the Presidents of all Federal Reserve Banks requesting that a similar call for condition reports be made upon all State member banks.

The sending of the proposed telegram was approved unanimously.

Reference was made to a memorandum dated December 21, 1956, from the Division of Examinations that had been circulated to the members of

12/28/56

-13-

the Board, to which was attached a letter from Mr. Murff, General Auditor of the Federal Reserve Bank of Dallas, dated December 14, 1956, regarding a \$5 cancelled United States note that had been received at the Federal Reserve Bank of Dallas and which might have been abstracted at some point in the verification and destruction process within the Federal Reserve Bank of Dallas.

Governor Robertson stated that immediately upon discovery of the cancelled note in the incoming shipment, the Dallas Bank adopted a procedure of (1) cutting unfit currency longitudinally prior to its delivery to the currency verification unit, (2) issuing only the upper halves of the bills for verification, and (3) after completion of the verification, destroying by incineration both the upper and lower halves of the bills. However, Governor Robertson went on to say that this incident raised again the question of possible mishandling of unfit currency that was scheduled for destruction at the Federal Reserve Banks, a condition which might result in severe criticism of the Federal Reserve System. He suggested that the System should take steps to reopen with the Treasury a discussion of the existing procedure in an effort to relieve the Federal Reserve Banks from acting as Fiscal Agent in the destruction of U. S. currency or to revise the procedure so as to eliminate or reduce substantially the possibility of defalcation or collusion in the verification and destruction process.

Governor Mills suggested that the Presidents of the Reserve Banks be asked to consider this matter at their forthcoming conference and that

12/28/56

-14-

it be placed on the agenda for discussion at the joint meeting of the Board and the Presidents.

Following a discussion, unanimous approval was given to a letter to Mr. Leedy, Chairman, Conference of Presidents of the Federal Reserve Banks, in the following form:

In its letter of November 19, 1956, addressed to you as Chairman of the Presidents' Conference, the Board requested the views of the Presidents as to the present arrangement for the verification and destruction of unfit United States currency and the problem raised by Mr. Armstrong, General Auditor for the Federal Reserve Bank of San Francisco, in his letter of September 5 to the Treasurer of the United States.

Since that time the Board has received a letter from Mr. Murff, General Auditor of the Federal Reserve Bank of Dallas, a confidential copy of which is enclosed, which raises further questions. The Board of Governors has discussed this whole matter again in the light of the Dallas experience and feels strongly that a more satisfactory arrangement should be devised than that now in effect. It will be appreciated, therefore, if you will suggest to the Presidents that, in addition to being prepared at the next meeting of the Presidents' Conference to present their views as requested in the Board's letter of November 19, 1956, they also be prepared to discuss a position which might be presented by the Board and the Federal Reserve Banks to the Treasury on the question whether the practice of shipping unfit United States currency to the Treasury for destruction should be reinstated and, if not, what additional steps should be taken to eliminate to the fullest extent practicable the possibilities of defalcation and collusion inherent in the existing arrangement.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a letter to Mr. Morrill, Vice President,

12/28/56

-15-

Federal Reserve Bank of San Francisco,
reading as follows:

In accordance with the request contained in your letter of December 20, 1956, the Board approves the designation of the following named individuals as special assistant examiners for the Federal Reserve Bank of San Francisco:

G. A. Bruce	J. M. Davis	A. T. Goodwin	R. W. McGee
A. S. Carella	V. M. Kolar	O. A. Strand	J. M. Start
E. M. Raplee	H. C. McClung	D. L. Stone	R. G. Woodman
E. Castanares	R. M. Podesta	M. M. Cannon	H. L. Young

The Board also approves the designation of the following as special assistant examiners for the Federal Reserve Bank of San Francisco for the purpose of participating in the examination of State member banks only:

E. S. Bishop	M. D. Martin
D. Anderton	R. E. Meyer
A. B. McCarthy	W. E. O'Donnell, Jr.
W. W. Taylor, Jr.	

Mr. O'Donnell's previous designation as a special assistant examiner is now limited to assisting in the examination of State member banks.

Inasmuch as the indebtedness of H. A. Erne, R. D. Jones, and J. G. Lynch to member banks has been liquidated, the Board approves their designation as special assistant examiners for the Federal Reserve Bank of San Francisco on an unrestricted basis.

Appropriate notations have been made on the Board's records of the names of individuals to be deleted from the list of special assistant examiners.


Secretary