

Minutes for January 16, 1957.

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"/> <u>MM</u>	_____
Gov. Szymczak	<input checked="" type="checkbox"/> <u>MS</u>	_____
<u>1</u> / Gov. Vardaman	_____	<input checked="" type="checkbox"/> _____
Gov. Mills	<input checked="" type="checkbox"/> <u>SM</u>	_____
Gov. Robertson	_____	<input checked="" type="checkbox"/> <u>R</u>
Gov. Balderston	<input checked="" type="checkbox"/> <u>CCRS</u>	_____
Gov. Shepardson	_____	<input checked="" type="checkbox"/> <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 Wednesday, January 16, 1957. The Board met in the Board Room at 10:30 a.m.

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

Mr. Carpenter, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Vest, General Counsel
 Mr. Sloan, Director, Division of Examinations
 Mr. Hackley, Associate General Counsel
 Mr. Solomon, Assistant General Counsel
 Mr. Hostrup, Assistant Director, Division of Examinations
 Mr. Thompson, Supervisory Review Examiner, 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. Phelan, Vice President, Federal Reserve Bank of New York, reading as follows:

This refers to your letter of January 9, 1957, and its enclosures, concerning the proposed issue by the International Bank for Reconstruction and Development of its Twenty-Year Bonds of 1957, dated January 1, 1957, due January 1, 1977. In that letter you state that it is proposed to amend Schedule A of the Fiscal Agency Agreement dated as of February 6, 1950, between the International Bank and your Bank to include the bonds in question.

The Board of Governors approves of your Bank acting as Fiscal Agent in respect of the proposed issue of the International Bank of Twenty-Year Bonds of 1957, dated January 1, 1957, due January 1, 1977, and approves the execution and delivery by your Bank of an Agreement with the International Bank in the form or substantially in the form of Supplement No. 9 to the Fiscal Agency Agreement of February 6, 1950, between your Bank and the International Bank, enclosed with your letter.

Approved unanimously.

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

Reference is made to your letter of January 3, 1957, advising of the approval by the Board of Directors of the adoption of a new hospitalization plan now available from the Minnesota Hospital Service Association.

The Board of Governors interposes no objection to the assumption of the increased expense involved in the adoption of the new hospital plan as described in your letter, with the understanding that payments by the Federal Reserve Bank of Minneapolis will not exceed two thirds of the cost of the hospitalization and surgical benefits under your group hospitalization program.

Approved unanimously.

Letter to the Board of Directors, Worcester County Trust Company, Worcester, Massachusetts, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Boston, the Board of Governors of the Federal Reserve System approves the establishment of branches by Worcester County Trust Company at

the junction of Southbridge and Auburn Streets, Auburn, Massachusetts,

the intersection of Main Street and Boyden Road, Holden, Massachusetts, and

the intersection of Route 9 and Maple Avenue, Shrewsbury, Massachusetts,

provided the branches are established within one year from the date of this letter and the approval of the State authorities is in effect as of the dates the branches are established.

Approved unanimously, for transmittal through the Federal Reserve Bank of Boston.

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

Reference is made to your letter of January 3, 1957, transmitting the request of the Clinton Trust Company, New York, New York, for an extension of time within which to establish a branch in the Port Authority Bus Terminal Building at 625 Eighth Avenue, New York City.

After considering the information which you have submitted, the Board concurs in your recommendation and extends to April 1, 1957, the time within which the Clinton Trust Company may establish the above described branch, provided the approval of State authorities is effective as of the date the branch is established.

Reference is made to your letters of December 21 and 28, 1956, submitting with favorable recommendations requests of Federal Trust Company, Newark, New Jersey, for permission under section 24A of the Federal Reserve Act to invest \$35,000 and \$17,500, respectively, for the purpose of remodeling its Hayes Circle Branch and acquiring additional parking space at the rear of that branch.

The Board has given consideration to the information you have submitted and approves the proposed additional investments with the understanding that the \$35,000 cost of remodeling the Hayes Circle Branch will be charged off upon completion of the work involved. Please advise the trust company accordingly.

Approved unanimously.

Letter to Mr. Hill, Vice President, Federal Reserve Bank of Philadelphia, reading as follows:

In view of the information submitted in your letter of January 2, 1957, and the Reserve Bank's favorable recommendation, the Board of Governors extends until October 1, 1957, the time within which Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, may establish a branch in the Oak Park Shopping Center, situated between Oak Road and Bishop Road, West Baltimore Pike, Upper Darby Township, Pennsylvania, under the authorization contained in its letter of July 12, 1956.

Approved unanimously.

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Letter to Mr. Patterson, Vice President and General Counsel,
Federal Reserve Bank of Atlanta, reading as follows:

This refers to your letter of December 21, 1956, transmitting the request of Citizens and Southern Holding Company, Atlanta, Georgia, for an opinion as to whether that Company, which is a bank holding company, may, in the light of the provisions of section 4(a)(2) of the Bank Holding Company Act of 1956, continue (1) to acquire, own, operate, and lease real estate to be used as bank premises by its subsidiary banks, and (2) to acquire for liquidation purposes loans secured by collateral charged off by subsidiary banks and property acquired on foreclosure by such banks.

Section 4(c)(1) of the Bank Holding Company Act specifically excepts from the divestment requirements of that section shares owned by a bank holding company in any company engaged solely in holding or operating properties used wholly or substantially by the bank holding company's subsidiary banks or engaged in liquidating assets acquired from subsidiary banks. No similar exception is specifically provided in connection with the prohibition in section 4(a)(2) of the Act against a bank holding company engaging in any business other than that of banking or of managing or controlling banks or of furnishing services to or of performing services for its subsidiary banks. However, it would seem unreasonable to interpret the statute as permitting a bank holding company to engage indirectly through a subsidiary company in activities of the kind here in question and at the same time as prohibiting the bank holding company from directly engaging in such activities.

On the basis of the facts presented and in the light of the spirit and intent of the statute and its legislative history, it is the opinion of the Board that the activities engaged in by Citizens and Southern Holding Company as described above may properly be regarded as incidental to the bank holding company's management of its subsidiary banks or as being in the nature of services performed by it for such banks and that, consequently, the statute will not make it unlawful for the Company to continue such activities.

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It will be appreciated if your will advise Citizens and Southern Holding Company of the Board's views as stated above. 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 of the statute might not be followed by that Department if it should have occasion to consider the matter.

Approved unanimously.

Letter to Mr. Kroner, Vice President, Federal Reserve Bank of St. Louis, reading as follows:

This will acknowledge the receipt of your letter of December 31, 1956, and various attachments respecting violations of Section 22(g) of the Federal Reserve Act and Regulation O by Mr. T. H. Van Sant, Vice President and Trust Officer of The Callaway Bank, Fulton, Missouri. This is the third series of violations occurring since the warning under Section 30 of the Banking Act of 1933 was sent to Mr. Van Sant.

The Board has reviewed the facts disclosed by your letter and its attachments and has considered your recommendation. In view of your statement that a very considerable and constant improvement has been shown by Mr. Van Sant and that items of excessive indebtedness seem to be more inadvertent than deliberate, the Board concurs in your recommendation that no action be taken in the matter at the present time.

Approved unanimously.

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

This refers to your letter dated December 28, 1956, transmitting the application of Northwest Bancorporation, Minneapolis, Minnesota, for an extension of time to March 1, 1957, in which it may register with the Board as a bank holding company, pursuant to section 5(a) of the Bank Holding Company Act of 1956 and section 3 of Regulation Y. The Board has granted the requested extension of time.

Approved unanimously.

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

It is respectfully requested that you place an order with the Bureau of Engraving and Printing, supplementing the order of June 27, 1956, for printing Federal Reserve notes of the Federal Reserve Bank of Kansas City in the amount and denomination stated below:

<u>Denomi- nation</u>	<u>Number of notes</u>	<u>Amount</u>
\$100	144,000	\$14,400,000

Approved unanimously.

Letter for the signature of the Chairman to Dr. Javier Marquez, Director, Center for Latin American Monetary Studies, Mexico, D. F., Mexico, reading as follows:

The Board of Governors will be glad to collaborate this year, as in previous years, in the annual training program at CEMLA.

I note that your current requirements call for a person to lecture on the Federal Reserve System during the week of July 22. For this purpose, the Board designates Mr. Robert L. Sammons, Chief of the Latin American Section in the Board's Division of International Finance.

Approved unanimously, together with the recommendation contained in a memorandum dated January 8, 1957, from Mr. Marget, Director, Division of International Finance, that the rate of per diem in lieu of subsistence in connection with this travel be the same as would be applicable for travel within the United States.

Under date of November 19, 1956, the House Committee on Government Operations sent to the Board, along with other agencies, a Questionnaire on Administrative Organization, Procedure and Practice. The

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Board's reply to Section I of the Questionnaire, relating to rule-making, was sent to the Committee on December 17, 1956. Prior to this meeting, there had been sent to the members of the Board copies of a memorandum from Mr. Solomon dated January 11, 1957, submitting a draft of replies to the questions in Section II, relating to adjudication.

During the discussion of the proposed replies, agreement was expressed with an editorial change in the answer to question 15 which was suggested by Governor Balderston.

Mr. Carpenter reported having been advised by Governor Robertson that he had no changes to suggest in the draft replies.

There being no other suggestions for changes in the proposed replies, unanimous approval was given to a letter for the Chairman's signature to The Honorable William L. Dawson, Chairman, Committee on Government Operations, House of Representatives, reading as follows:

As requested in your letter of November 19, 1956, which enclosed a Questionnaire on Administrative Organization, Procedure and Practice, there are attached 12 copies of the Board's reply to Section II of the Questionnaire, the section which relates to adjudication.

Consideration then was given to a memorandum from the Division of Examinations dated January 11, 1957, relating to certain requests received from Morgan & Cie. Incorporated, New York, New York, a foreign banking corporation operating under agreement with the Board pursuant to the provisions of Section 25 of the Federal Reserve Act. By reason

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of section 11 of the provisions of the revised Regulation K (adopted effective January 15, 1957, under the title Corporations Doing Foreign Banking or Other Foreign Financing under the Federal Reserve Act) Morgan & Cie. Incorporated would become subject to the regulation on that date. The memorandum from the Division of Examinations recommended approval of the requests, as did the Federal Reserve Bank of New York.

Governor Szymczak reviewed the situation and said that he concurred in the favorable recommendation of the Division of Examinations. In response to a question, he stated that if the requests were granted, Morgan & Cie. Incorporated would not occupy a position different from that which it held under the terms of its agreement with the Board of Governors.

Thereupon, unanimous approval was given to a letter to Mr. Julian Allen, President, Morgan & Cie. Incorporated, New York, New York, reading as follows, for transmittal through the Federal Reserve Bank of New York:

This refers to your letter of December 31, 1956, transmitted through the Federal Reserve Bank of New York, regarding the revision of Regulation K, effective January 15, 1957, and the agreement which Morgan & Cie. Incorporated executed with the Board of Governors pursuant to Section 25 of the Federal Reserve Act under date of January 26, 1945.

As requested in your letter, the Board of Governors hereby relieves Morgan & Cie. Incorporated of all obligation to comply in the future with the regulations contained in your agreement of January 26, 1945 mentioned above, this action to be effective as of January 15, 1957 and to remain in effect so long as Morgan & Cie. Incorporated remains subject to Regulation K.

With reference to the further request in your letter that Morgan & Cie. Incorporated be permitted to exceed the limits set

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forth in Section 10(b) of the revised Regulation K regarding the aggregate liabilities of your Corporation, the Board of Governors hereby grants permission to Morgan & Cie. Incorporated to exceed the limits of Section 10(b), such permission to be subject to the same conditions that applied to the similar permission which the Board granted under your agreement of January 26, 1945, namely, (a) that Morgan & Cie. Incorporated shall maintain a condition of liquidity consonant with the nature of its liabilities, and (b) that the Corporation shall restrict its operations and conduct its business in such manner and under such other or further limitations and restrictions as the Board may hereafter from time to time prescribe for the place or places wherein such business is to be conducted.

There had been sent to the members of the Board copies of a memorandum from the Division of Examinations dated January 10, 1957, discussing certain questions that had been raised by Marine Midland Corporation, Buffalo, New York, regarding requirements for the establishment and maintenance by holding company affiliates of reserves of readily marketable assets pursuant to the provisions of section 5144 of the Revised Statutes of the United States. The memorandum stated that the Division agreed with Marine Midland's understanding as to the meaning of the requirements and recommended that a letter reading as follows be sent to Mr. Crosse, Assistant Vice President of the Federal Reserve Bank of New York:

This refers to the letter, dated January 4, 1957, addressed to your Bank by Mr. Maull, President of Marine Midland Corporation, Buffalo, New York, which was transmitted with your letter dated January 7, 1957.

In that letter, Mr. Maull stated that as a result of conferences during the past year between representatives of the Federal Reserve Bank and the corporation with reference to the readily marketable asset provisions of section 5144, Revised Statutes, it is their understanding that

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(1) the required reserve need not be accumulated only out of earnings in excess of 6 per cent of the book value of the stock; (2) any assets which the corporation has, irrespective of how obtained, which qualify for the reserve, can be so counted; (3) it is not necessary that the reserve be earmarked and held as a separate account; and (4) if such reserve is in existence all corporate earnings are available for proper corporate purposes, including the payment of dividends.

The Board is in agreement with the understandings stated above. It should be noted with respect to item numbered (2) that the assets required to be held, in addition to being readily marketable, shall be held free and clear of any lien, pledge, or hypothecation of any nature. Also, with respect to item numbered (4), if the required reserve is in existence, corporate earnings would be available for the payment of dividends, provided dividends are declared in amounts which do not violate the provisions of subsection (e)(4) of section 5144, Revised Statutes.

Please advise Marine Midland Corporation accordingly.

Following a brief discussion, the letter was approved unanimously.

The next item to be considered was a memorandum from the Division of Examinations dated January 15, 1957, copies of which had been sent to the members of the Board, regarding certain requests for extension of time within which to register as a bank holding company pursuant to the Bank Holding Company Act of 1956. The memorandum recommended that each of the requests be granted.

Mr. Thompson said that two of the five cases apparently reflected lack of awareness of holding company status under the new statute and that

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in two other cases there was apparently a misunderstanding regarding the registration requirements.

With respect to the fifth case, involving The Fort Worth National Bank, Fort Worth, Texas, Mr. Hackley explained that the question of the bank's status as a bank holding company under the law remained to be resolved. He said the Board's staff had the matter under consideration and would make a recommendation to the Board as soon as possible. He went on to say that it was hoped to have the recommendation ready for presentation to the Board before the expiration of the proposed extension of time for registration, namely March 15, 1957. If not, the time could of course be further extended.

Thereupon, unanimous approval was given to telegrams reading as follows:

To Mr. Pondrom, Vice President, Federal Reserve Bank of Dallas

Board has not had an opportunity to determine whether The Fort Worth National Bank, Fort Worth, Texas, is a bank holding company. However, in order to avoid any question as to violation of registration requirements in the event registration is necessary, Board extends until March 15, 1957, the time for registration by that bank pursuant to the Bank Holding Company Act of 1956.

Also, Board has extended to March 15, 1957, the time within which Farmers and Mechanics Trust Company, Childress, Texas, may register as a bank holding company, pursuant to the provisions of the Bank Holding Company Act of 1956.

Also, Board has extended to February 15, 1957, the time within which The Equitable Company of Texas and Mercantile National Bank at Dallas, Dallas, Texas, may register as bank holding companies pursuant to the provisions of the Bank Holding Company Act of 1956.

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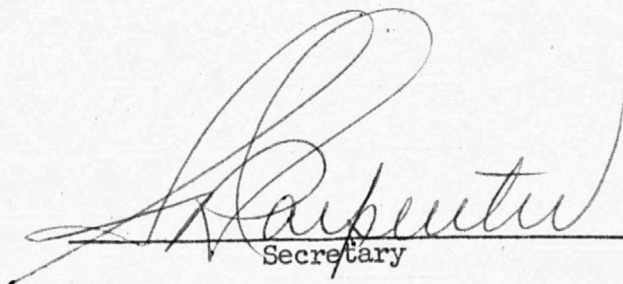
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To Mr. Stetzelberger, Vice President, Federal Reserve Bank of Cleveland

Board has extended to March 15, 1957, the time within which The Buckeye Union Casualty Company, Columbus, Ohio, may register as a bank holding company, pursuant to the provisions of the Bank Holding Company Act of 1956.

The meeting then adjourned.

Secretary's Note: Governor Balderston today approved on behalf of the Board the recommendation contained in a memorandum dated January 9, 1957, from Mr. Young, Director, Division of Research and Statistics, that the resignation of Mary Ann Nichols, Clerk-Typist in that Division, be accepted effective February 15, 1957.


Secretary