The attached set of minutes of the Board of Governors of the Federal Reserve System on February 21, 1957, which you have previously initialed, has been amended at the request of Governor Mills to extend the last sentence of the full paragraph on page 16. If you approve these minutes as amended, please initial below.

Gov. Szymczak _____

Minutes for February 21, 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		x
Gov. Szymczak	x	
Gov. Vardaman	x	
Gov. Mills	x	
Gov. Robertson	x	
Gov. Balderston	x	
Gov. Shepardson	x	

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, February 21, 1957. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Sloan, Director, Division of Examinations
Mr. Marget, Director, Division of International Finance
Mr. Horbett, Associate Director, Division of Bank Operations
Mr. Shay, Assistant General Counsel
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 follows:

Letter to Mr. Sprague, Chairman, Federal Reserve Bank of Boston, reading as follows:

> The Board of Governors approves the appointments of Messrs. John L. Baxter, Wallace E. Campbell, Earl P. Stevenson, Fred C. Tanner, and Harold J. Walter as members of the Industrial Advisory Committee for the First Federal Reserve District to serve for terms of one year each beginning March 1, 1957, in accordance with the action taken by the Board of Directors as reported in your letter of February 11, 1957.

Approved unanimously.

Letter to Mr. Braun, Assistant Secretary, Federal Reserve Bank of New York, reading as follows:

The Board of Governors approves the appointments of Messrs. Arthur G. Nelson, Edward J. Noble, and William H. Pouch as members of the Industrial Advisory Committee for the Second Federal Reserve District to serve for terms of one year each beginning March 1, 1957, in accordance with the action taken by the Board of Directors as reported in your letter of February 7, 1957.

Approved unanimously.

Letter to Mr. McCreedy, Secretary, Federal Reserve Bank of Philadelphia, reading as follows:

The Board of Governors approves the appointments of Messrs. Albert G. Frost, George E. Lallou, B. F. Mechling, Harry L. Miller, and Daniel H. Schultz as members of the Industrial Advisory Committee for the Third Federal Reserve District to serve for terms of one year each beginning March 1, 1957, in accordance with the action taken by the Board of Directors as reported in your letter of February 8, 1957.

Approved unanimously.

Letter to Mr. Bryan, President, Federal Reserve Bank of Atlanta, reading as follows:

The Board of Governors approves the payment of salary for the following officers of the Federal Reserve Bank of Atlanta for the period February 1, 1957 through December 31, 1957.

Name	Title	Annual Salary
Brown R. Rawlings	Assistant Cashier	$10,000
James B. Forbes	Assistant General Auditor	8,000

It is understood from your letter of January 31, 1957, that these appointments were approved by the Executive Committee of your Board of Directors effective February 1, 1957.

Approved unanimously.

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

The reports relative to the number of officers and employees selected by the Federal Reserve Banks to attend the various banking schools during the summer sessions of 1957 have now been received.

From the information submitted, it appears that the total number of officers and employees selected to attend these schools conforms to the policy outlined in the Board's letter on this subject, S-1489, dated February 26, 1953.

Approved unanimously.

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

Reference is made to your letter of February 1, 1957, and previous correspondence relating to the question whether Section 32 of the Banking Act of 1933 is applicable to the service of Mr. David G. Means as a director of The Merrill Trust Company, Bangor, Maine.

It appears from Mr. Means' letter of January 29, 1957, a copy of which you enclosed, that in the year 1956 Mr. Means had a gross income of approximately $50,000, of which about 8 per cent was derived from brokerage commissions, 2 per cent from underwriting and distributing, and the remaining 90 per cent from "acting as dealer for (his) own account." He states further:

"Since I buy securities for my own account, I occasionally advertise these securities for sale in the local newspaper. Most of my business is done in local securities such as Bangor Hydro, Central Maine Power and the like. Any advertising that is done is not as an underwriter with special issue, but just as a dealer offering securities in the normal course of my business. The nature of my business is substantially the same as that of any other small dealer in securities."

As you are aware, Section 32 is directed to the "probability or likelihood" (the words of the Supreme Court of the

the United States in the Board of Governors v. Agnew, 329 U.S. 441) that a bank director engaged in any of the kinds of business described in the statute may use his influence in the bank to involve it or its customers in securities which he owns or has committed himself to take. In view of the fact that Mr. Means derives 92 per cent of his income from the profit which he makes from underwriting and from selling securities to the public, the Board is of the opinion, on the basis of the facts presented, that his service as a director of the bank is the kind of relationship to which the statute was directed and that such service is prohibited by Section 32.

Approved unanimously.

Letters to the Board of Directors, First Trust and Deposit Company, Syracuse, New York, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors hereby gives its written consent, under the provisions of Section 18(c) of the Federal Deposit Insurance Act, to the merger of The Cazenovia National Bank, Cazenovia, New York, into First Trust and Deposit Company, Syracuse, New York, and approves the establishment of a branch of the continuing bank in the present location of The Cazenovia National Bank, provided the transaction is effected substantially in accordance with the Agreement of Merger dated December 28, 1956, and the merger and establishment of the branch are accomplished within six months from the date of this letter.

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

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors hereby gives its written consent, under the provisions of Section 18(c) of the Federal Deposit Insurance Act, to the purchase of certain assets and the assumption of certain liabilities of The First National Bank of Morrisville, Morrisville, New York, by the First Trust and Deposit Company, Syracuse, New York, and approves the establishment of a branch of the

trust company in the present location of The First National Bank of Morrisville, provided (a) the transaction is effected substantially in accordance with the Agreement dated December 24, 1956, (b) the fixed assets and investment securities acquired from The First National Bank of Morrisville are not placed on the books of the trust company at amounts in excess of their depreciated book value for Federal income tax purposes and market value, respectively, and (c) the proposed purchase of assets and assumption of liabilities and the establishment of the branch are accomplished within six months from the date of this letter.

Approved unanimously, with the understanding that the letter would be transmitted through the Federal Reserve Bank of New York upon receipt of advice that the establishment of the branch had been approved by the New York State Banking Board.

Letter to Mr. Denmark, Vice President, Federal Reserve Bank of Atlanta, reading as follows:

In accordance with the recommendation contained in your letter of February 7, 1957, the Board of Governors extends to April 12, 1957, the time within which the proposed Peoples Bank and Trust Company of Sylacauga, Sylacauga, Alabama, may accomplish admission to membership. Please advise the applicant accordingly.

Approved unanimously.

Letter to the Board of Directors, Bank of Dearborn, Dearborn, Michigan, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors approves the establishment of a branch by Bank of Dearborn at 22100 Outer Drive in Dearborn, Michigan, provided the branch is established within nine months from the date of this letter, and approval of the State authorities is effective as of the date the branch is established.

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

Letter to Mr. Jones, Cashier, Federal Reserve Bank of Chicago, reading as follows:

This refers to your letter of February 6, regarding a penalty of $130.41 incurred by the Michigan Bank, Detroit, Michigan, on a deficiency of 4.5 per cent in its required reserves for the weekly period ended January 30, 1957.

It is noted that the deficiency resulted from the fact that, in computing its reserve position since its admission to membership on April 26, 1956, the bank had been using the opening reserve balance rather than the closing balance for each day of the computation period; that penalties for reserve deficiencies have been waived twice since it became a member, but in the thirty-five reserve reporting periods of its membership the bank has carried average excess reserves of $518,000; and that the Reserve Bank feels that it was remiss in not investigating the situation at the time of the previous penalty and instructing the bank how to compute its reserve position.

In the circumstances, the Board authorizes your Bank to waive the assessment of the penalty in this case.

Approved unanimously.

Letter to Mr. Pondrom, Vice President, Federal Reserve Bank of Dallas, reading as follows:

Reference is made to your letters of January 23 and February 7, 1957, with respect to approval, under the provisions of Section 24A, of an investment in banking premises in excess of the capital stock by The Citizens State Bank, Hugo, Oklahoma.

After considering the information submitted, the Board of Governors concurs in the Reserve Bank's recommendation and approves an investment of $40,173.35 for remodeling bank premises by The Citizens State Bank, Hugo, Oklahoma.

It is noted that the bank plans to reduce the book value of bank premises on a planned and regular schedule.

Approved unanimously.

Letter to the Board of Directors, Seattle Trust and Savings Bank, Seattle, Washington, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors approves the establishment of a branch in the vicinity of Southwest 152nd Street and Ambaum Road, Burien, Washington, by Seattle Trust and Savings Bank, Seattle, Washington, provided that the branch is established within one year from the date of this letter and that approval of the Supervisor of Banking for the State of Washington is effective at the time the branch is established.

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

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 September 19, 1956, enclosing photostatic copies of an application to organize a national bank at La Marque, Texas, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of Dallas indicates that the proposed capital structure of the bank would be adequate in relation to the anticipated volume of business. However, it is reported that the institution may have some difficulty in acquiring sufficient business within a reasonable time to afford satisfactory earnings and that the proposed management is lacking in the necessary experience to handle the problems of a new institution. On the basis of the information available, it is questionable whether sufficient need exists to justify the establishment of the bank at this time. Under the circumstances, the Board of Governors does not recommend approval of the application.

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.

Letter to J. K. P. Hall Corporation, 41 East 42nd Street, New York, New York, reading as follows:

This refers to your letter of January 29, 1957, regarding the present status of J. K. P. Hall Corporation as a bank holding company. Your letter states that the Corporation has sold sufficient of its holdings so that it no longer owns 25 per cent or more of the voting shares of each of two or more banks and no longer qualifies under the definition of "bank holding company" contained in the Bank Holding Company Act of 1956.

It is noted from the Corporation's registration statement that, as of May 9, 1956, the Corporation owned more than 25 per cent of the stock of each of two banks, the St. Marys National Bank, St. Marys, Pennsylvania, and the St. Marys Trust Company, St. Marys, Pennsylvania. It is the Board's understanding, however, that since May 9, 1956, the Corporation has sold stocks held by it in one or both of these banks and that, as a result, the Corporation does not own, control, or hold with power to vote 25 per cent or more of the voting shares of each of two or more banks or of a bank holding company, or control in any manner the election of a majority of the directors of each of two or more banks, and that trustees do not hold 25 per cent or more of the voting shares of each of two or more banks or of a bank holding company for the benefit of the Corporation's shareholders. On the basis of this understanding, it is the Board's opinion that the Corporation is not at present a bank holding company as that term is defined in the Bank Holding Company Act. 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.

Your letter regarding the change in status of your Corporation will appear in the Board's records in connection with the Corporation's registration statement.

Approved unanimously, with
a copy to the Federal Reserve
Bank of Philadelphia.

Letter to Mr. John J. McCloy, Chairman of the Board of Directors, American Overseas Finance Corporation, New York, New York, reading as follows:

> There is enclosed a copy of the report of examination of American Overseas Finance Corporation made as of December 7, 1956, by examiners for the Board of Governors of the Federal Reserve System.
>
> After the report has been presented to your directors for their consideration, please advise the Board of Governors regarding the actions taken or contemplated with respect to the various comments, recommendations, and suggestions of the examiner, as set forth in Examiner's Comments, pages 7-9.
>
> Any other comments you may care to make with regard to the operations of the Corporation as disclosed by the report will be appreciated.

Approved unanimously, with copies of the letter and report of examination to the Federal Reserve Bank of New York.

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

Atlanta	February 18
New York	February 21
Philadelphia	February 21
Chicago	February 21

Approved unanimously.

There had been sent to the members of the Board copies of a memorandum from Mr. Horbett dated February 18, 1957, with respect to prospective designations and terminations of reserve cities effective March 1, 1957,

pursuant to the rule adopted by the Board in 1947. The memorandum referred to the Board's letter of December 18, 1956, to the Federal Reserve Banks in which certain of the Banks were requested to advise the member banks in the seven cities whose reserve status would be terminated pursuant to the 1947 rule in order that the member banks might, if they so desired, submit requests for continuance of the reserve city designation by February 15, 1957. The memorandum summarized the responses of the member banks to the prospective designations and terminations as follows:

1. All reserve city member banks in each of the following five cities have formally requested that the reserve city designation be continued; the cities do not otherwise qualify for designation under the 1947 rule:

Wichita, Kansas	Topeka, Kansas
Kansas City, Kansas	Pueblo, Colorado
Toledo, Ohio	

2. Member banks in each of the following two cities have not unanimously requested continuance of the reserve city designation:

Sioux City, Iowa
Cedar Rapids, Iowa

In the case of Sioux City, the Toy National Bank, with total deposits of $28 million on June 30, 1956, has advised the Federal Reserve Bank by telephone that it does not want the reserve city designation continued. The three other banks--First National, Security National, and Livestock National, with total deposits of $24 million, $32 million, and $23 million, respectively--have requested that the reserve city designation be continued.

In the case of Cedar Rapids, the only reserve city member bank has advised the Federal Reserve Bank that it does not want the reserve city designation continued.

3. With respect to Miami, Florida, the only additional city which would be designated under the rule, the Board on January 22 granted the request of the member banks in that city for deferment

until June 1, 1957 of the effective date of the reserve city designation; requested that they submit at their early convenience whatever documents might have a bearing on the final determination of the appropriate reserve classification of Miami; and stated that it would be glad to hear their representatives if a hearing should be found necessary or desirable. The Board's letter was acknowledged, and it is understood the requested data are being assembled.

There was submitted with Mr. Horbett's memorandum as a basis for Board consideration a notice for publication in the Federal Register which would:

a. Continue the reserve city designation of Washington, D. C., and every Federal Reserve Bank and Branch city.

b. Continue the reserve city designation of the following cities, which meet the standard prescribed by the 1947 rule--

Milwaukee, Wisconsin	National City (National Stock Yards), Illinois
Fort Worth, Texas	Tulsa, Oklahoma
Indianapolis, Indiana	Des Moines, Iowa
St. Paul, Minnesota	Columbus, Ohio

c. Continue the reserve city designation of the following cities because of the unanimous requests of the member banks in these cities--

Wichita, Kansas	Topeka, Kansas
Kansas City, Kansas	Pueblo, Colorado
Toledo, Ohio	

d. Terminate the reserve city designation of Sioux City and Cedar Rapids, Iowa.

e. Designate Miami, Florida, as an additional reserve city but defer the effective date to June 1, 1957.

With respect to the designation of Miami, Florida, as a reserve city, the memorandum suggested that as an alternative the notice in the Federal Register might include a statement to the effect that the Board had deferred designation of any additional reserve cities pending consideration of a possible amendment to the existing rule. One possible amendment would be to add a proviso to the 1947 rule to the effect that no additional reserve city would be designated unless it qualified under the prescribed standard in two consecutive triennial review periods.

It was the view of the Board that its action of January 22, 1957, constituted reason why the designation of Miami as a reserve city should not be made until such time as the Board had received and reviewed such material as might be supplied by the member banks in Miami. In this connection, it was pointed out that at the time of the meeting of the Federal Advisory Council earlier this week, Mr. Comer Kimball, Chairman of the Board of The First National Bank of Miami and a member of the Federal Advisory Council, indicated to a member of the Board that the Miami banks were preparing representations and might request an opportunity to present their views to the Board personally.

The question, therefore, was whether any reference to the possible designation of Miami as a reserve city should be included in the notice to be published in the Federal Register. On this point, Mr. Vest said he understood that the intent of the January 22, 1957, letter to the Miami banks was to give them an opportunity to present such information as they wished before the Board took action on the designation of that city as a

reserve city. While one possibility would be to say nothing concerning the Miami situation in the Federal Register notice, another possibility would be to include a brief statement that the Board had deferred action for a period not to exceed three months from March 1, 1957. He felt that it would be somewhat preferable to include a statement to such effect because the Board would be in effect departing from the rule adopted in 1947.

In the ensuing discussion of the matter, Governor Vardaman expressed disapproval of the procedure followed in connection with the designations and terminations of reserve cities, stating that he objected to the member banks in the cities concerned having any option in the matter. He said that in his opinion the Board's actions should be based solely on application of the standards prescribed by the 1947 rule, and that to do otherwise tended to deceive the public as well as create bad feeling among the banks concerned when there was a difference of opinion on the part of the member banks in an affected city.

Mr. Horbett stated that the so-called "grandfather clause" apparently was incorporated in the rule adopted by the Board in 1947 because of strong representations from banks in a number of reserve cities that they did not wish to have the reserve city designation discontinued.

Mr. Leonard added to Mr. Horbett's comments by saying that when the present rule was under consideration by the Board many banks in reserve cities seemed to feel that it was highly important to have the designation continued. It was perhaps persuasive to the Board at that

time, he said, that no privilege was being granted if the banks in such cities were allowed voluntarily to carry higher reserves; and since there appeared to be no important problem from the standpoint of monetary control, it was decided that if the banks in a reserve city were unanimous in wishing to have the designation of that city continued, an exception would be made to the general rule. On the other hand, the designation would not be continued if even one member bank in the city concerned did not want to maintain the higher reserves applicable to reserve city status.

There followed some discussion of the suggestion in Mr. Horbett's memorandum that the Board might want to amend the 1947 rule to provide that no additional reserve cities would be designated unless they qualified under the prescribed standards in two consecutive triennial review periods. While some sentiment was expressed in favor of the principle underlying such a change, the point was brought out that this would prevent the Board from making a reserve city designation for a rather substantial period. In response to questions by Governor Shepardson, Mr. Leonard and Mr. Horbett said that since 1947, when National Stock Yards, Illinois, was designated, no city had been added to the list of reserve cities. They also said that no city whose status had been terminated or whose status had been continued at the unanimous request of its member banks apparently would have regained or continued its reserve city status by application of the standards set forth in the 1947 rule.

Governor Balderston inquired of Governor Vardaman whether the fact that revision of the whole system of member bank reserve requirements was

now under consideration would have a bearing on his thinking in regard to the desirability of changing the rule adopted by the Board in 1947.

Governor Vardaman replied that he envisaged a period of several years before any proposal to change the system of reserve requirements could be enacted into law, and that in such circumstances he did not feel there was any strong reason against amending the 1947 rule. He went on to say that he was not opposed to applying the rule effective March 1, 1957, with postponement of a decision in the case of Miami, but that he felt the staff might be asked to present to the Board for consideration a concrete proposal to change the rule which, if favored by the Board, could be published in the Federal Register.

Governor Balderston then asked whether any of the members of the Board would oppose terminating the reserve city designations of Sioux City and Cedar Rapids, Iowa, effective March 1, 1957, and there was no expression of opposition to such action. Accordingly, the remaining discussion concerned whether the notice to be published in the Federal Register should make any reference to the possible designation of Miami as a reserve city.

Governors Vardaman and Robertson expressed some feeling in favor of not referring to the Miami situation at this time, the latter suggesting that if the Board reached a decision to declare Miami a reserve city after hearing the Miami member bankers, an appropriate notice should of course be published, but that he doubted whether any notice was necessary at this time because the Board had not made a determination of the city's status and had merely granted a deferment.

Governors Mills and Shepardson set forth reasons for including some reference to the status of the matter in the Federal Register notice, so as to indicate that Miami fell within the standards of the Board's rule but that the Board had deferred action in this case pending further investigation of the situation in the light of whatever information might be presented by the member banks in Miami. Governor Mills said that inasmuch as the formula was an arbitrary rule, it seemed reasonable that the Board should approach problems arising under it in a way which allowed latitude in making determinations. He felt that the public was entitled to know that the Board was deviating from the rule in the Miami situation to allow the Miami member banks to make representations, that the whole matter of reserve city designations and terminations was not one of great interest except to the banks in the communities concerned, and that in the circumstances full disclosure would be advisable. In response to a question by Governor Vardaman as to whether notice of the Miami deferment might not tend to encourage similar requests for deferment in other cases, Governor Mills said that he would be inclined to look favorably upon any reasonable request for a period of deferment in which to develop information on which the Board might make such determination as seemed most appropriate, where an abrupt adjustment to a changed reserve classification might work a hardship on the banks affected.

At the conclusion of the discussion, approval was given to a notice for publication in the Federal Register in the following form, this action being taken with the understanding that Governors Vardaman and Robertson would have

preferred that no reference be made in the notice to the possible designation of Miami, Florida, as a reserve city, and with the further understanding that appropriate letters of advice concerning the Board's action would be sent to the Federal Reserve Banks and to the Comptroller of the Currency:

CLASSIFICATION OF RESERVE CITIES

Acting in accordance with the rule regarding classification of central reserve and reserve cities which was adopted by the Board on December 19, 1947, and became effective March 1, 1948 (hereafter referred to as the Board's rule), and pursuant to authority conferred upon it by section 11(e) of the Federal Reserve Act and other provisions of that Act, the Board of Governors has taken the following actions to become effective March 1, 1957:

(1) The City of Washington, D. C., and every city except New York and Chicago in which there is situated a Federal Reserve Bank or a branch of a Federal Reserve Bank are hereby continued as reserve cities.

(2) The following cities fall within the scope of paragraph (2) of subsection (b) of the Board's rule based upon official call reports of condition in the two-year period ending on June 30, 1956, and, therefore, such cities, in addition to the reserve cities classified as such under paragraph (1) above, are hereby continued as reserve cities:

Milwaukee, Wisconsin	National City (National Stock Yards), Illinois
Fort Worth, Texas	Tulsa, Oklahoma
Indianapolis, Indiana	Des Moines, Iowa
St. Paul, Minnesota	Columbus, Ohio

(3) The following cities do not fall within the scope of paragraph (2) of subsection (b) of the Board's rule based upon official call reports of condition in the two-year period ending June 30, 1956, but a written request for the continuance of each such city as a reserve city was received by the Federal Reserve Bank of the district in which the city is located on or before February 15, 1957, from every member

bank having its head office or a branch in such city (exclusive of any member bank in an outlying district in such city permitted by the Board to maintain reduced reserves), together with a certified copy of a resolution of the board of directors of such member bank duly authorizing such request; and, accordingly, in accordance with paragraph (3) of subsection (b) of the Board's rule, the following cities, in addition to the reserve cities classified as such under paragraphs (1) and (2) above, are hereby continued as reserve cities:

Wichita, Kansas	Topeka, Kansas
Kansas City, Kansas	Pueblo, Colorado
Toledo, Ohio	

(4) The following cities do not fall within the scope of paragraph (2) of subsection (b) of the Board's rule based upon official call reports of condition in the two-year period ending June 30, 1956, and written requests for their continuance as reserve cities were not received from all member banks in such cities; and, accordingly, the designation of such cities as reserve cities is hereby terminated:

Cedar Rapids, Iowa
Sioux City, Iowa

(5) The Board has deferred, pending further consideration and for a period not exceeding three months from March 1, 1957, the question whether the city of Miami, Florida, will be designated as a reserve city in accordance with the Board's rule.

Messrs. Sherman and Horbett then withdrew from the meeting.

In a letter dated February 6, 1957, President Hayes of the Federal Reserve Bank of New York discussed further participation by the Federal Reserve System in the activities of the Center for Latin American Monetary Studies, located in Mexico City. With regard to the sending of System personnel to participate as students in the Center's annual training sessions, he reported the feeling of the New York Bank to be that a number

of benefits would result. With regard to formal membership of the System in the Center, he expressed the view that the Center's achievements had been substantial enough to overcome the original doubts about the desirability of System membership and that such membership would be an appropriate gesture of cooperation and collaboration with the Latin American central banks.

In a memorandum dated February 8, 1957, copies of which had been sent to the members of the Board, along with copies of the letter from Mr. Hayes, Mr. Marget expressed concurrence in the proposal to send System personnel having sufficient knowledge of Spanish to participate as students at the Center, assuming that the Board would have responsibility for coordinating System representation. With regard to System membership in the Center, however, he felt that the reasons advanced against such a step in the Board's letter of October 14, 1952, to the Presidents of all Federal Reserve Banks were still valid, particularly since the work of the Center had now gone into the area of research and informational projects and expansion of such projects was contemplated. The view was expressed that the contribution now being made by the System to the Center in the form of providing lecturers was appreciated by the Center and represented a substantial contribution to its work.

In response to a question by Governor Szymczak regarding the manner in which it was contemplated that the Board would exercise coordinating responsibility in the selection of System personnel to attend the training sessions of the Center, Mr. Marget said that it would first have to be

ascertained how many students from the System the Center was prepared to receive at each training session, that all of the Federal Reserve Banks could then be advised of the possibility of sending students, and that a selection would have to be made on the basis of factors such as the duties of the respective candidates, their ability to speak Spanish, and the probable benefits to the System that would result from their attendance.

With respect to System membership in the Center, Mr. Marget said that under the present management the risks of membership perhaps were not great, but that developments could change the situation and it might be difficult for the System to withdraw from membership.

Governor Vardaman inquired whether it would be appropriate to send students to the Center without taking membership and Mr. Marget replied by saying that in addition to the System's current contributions to the Center, including the furnishing of lecturers, it should be possible to reach agreement on a tuition for the students attending the training sessions. In these ways he felt that the System would be making a sufficient contribution toward the expenses of the Center to justify enrollment of students from the System.

In response to a further question by Governor Vardaman, regarding System membership in the Center, Mr. Marget expressed some concern that the Center might at some time issue publications over which the System would not have control. For this reason particularly, he felt that it would be preferable for the System not to have formal membership in the Center.

Governor Szymczak having noted that Chairman Martin had certain views on System relations with the Center when the matter of membership

was first raised in 1952, the suggestion was made that the Board's reply to President Hayes be prepared for the Chairman's signature so that he might have an opportunity to approve the reply before it was sent.

In a further discussion concerning the advantages that might accrue to the System from sending personnel to the Center as students on an experimental basis and the procedures by which representation of the System might be coordinated, it was suggested that after a reply had been made to President Hayes there could be further exploration of the mechanics for selecting System personnel and a letter to the Presidents of all Federal Reserve Banks could then be prepared for the Board's consideration.

At the conclusion of the discussion, it was agreed unanimously that a letter to President Hayes should be prepared for Chairman Martin's signature which would reflect the views expressed in Mr. Marget's memorandum of February 8, 1957, and the comments made at this meeting, and that the letter should be sent when in a form acceptable to the Chairman.

Secretary's Note: Pursuant to this action, the following letter was sent to President Hayes over the signature of Chairman Martin on February 26, 1957:

The Board of Governors has considered the two proposals outlined in your letter of February 6, 1957, with respect to possible further participation by the Federal Reserve System in the activities of the Center for Latin American Monetary Studies, and has reached the following conclusions with respect to them.

The Board concurs in your first proposal -- namely, that selected System personnel having sufficient knowledge of

Spanish be sent to participate as students in the Center's annual training sessions held in Mexico City. The Board would of course regard such a program of student participation as frankly experimental at the outset; but it agrees that the possible advantages are sufficiently impressive to justify a thorough trial.

On the assumption that satisfactory arrangements to this end can be made with the Center for Latin American Monetary Studies, the Board will wish to call the attention of all of the Federal Reserve Banks to the opportunities which such a training program would offer. Accordingly, the Board will explore with the Center the possibility of including Federal Reserve System personnel as students in the Center's training program and the terms on which such participation can be undertaken. The number of students from the System which the Center can accept in any one year will be limited and as soon as the Board has determined the terms on which System participation can be arranged, it will suggest to the Federal Reserve Banks an arrangement for the coordination of the participation from the Federal Reserve Banks in the annual training sessions.

The Board has also considered the second proposal contained in your letter of February 6 -- namely, that the System should assume formal membership in the Center. In view of the fact, to which your letter makes reference, that the Center, in addition to presenting its training program, has not only engaged in a program of research and informational projects, but is actually considering expanding this program, the Board continues to regard as valid the considerations raised in my letter of October 14, 1952, to the Federal Reserve Bank Presidents. Therefore, it is the Board's view that the System should continue to defer any decision to assume formal membership in the Center.

During the foregoing discussion Mr. Goodman, Assistant Director, Division of Examinations, entered the room and at its conclusion Mr. Leonard withdrew.

There had been sent to the members of the Board copies of a proposed letter to Mr. Kroner, Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

This refers to your letter of February 13, 1957, forwarding a letter of the same date from Thompson Mitchell Thompson & Douglas, counsel for General Contract Corporation, regarding the exemptions in section 4(c)(5) of the Bank Holding Company Act of 1956.

The law firm states that Investment Company of St. Louis is an investment company which is not a bank holding company and which is not engaged in any business other than investing in securities, which securities do not include more than 5 per centum of the outstanding voting securities of any company and do not include any asset having a value greater than 5 per centum of the value of the total assets of General Contract Corporation. The firm states further that direct ownership by General Contract Corporation of voting shares of Investment Company of St. Louis would be exempt by reason of section 4(c)(5) from the prohibition of section 4 of the Act against ownership by bank holding companies of nonbanking assets.

The firm asks, in effect, whether it makes any difference that the shares of Investment Company of St. Louis are not owned directly by General Contract Corporation but instead are owned through two subsidiaries, which may be called Subsidiary A and Subsidiary B. General Contract Corporation owns all the voting shares of Subsidiary A, and Subsidiary A owns one-half of the voting shares of Subsidiary B. Subsidiary A and Subsidiary B each own one-third of the voting shares of Investment Company of St. Louis.

Section 4(c)(5) is divided into two parts. The first part exempts the ownership of securities of nonbanking companies when the securities do not include more than 5 per cent of the voting securities of the nonbanking company and do not have a value greater than 5 per cent of the value of the total assets of the bank holding company. The second part exempts the ownership of securities of an investment company which is not a bank holding company and is not

engaged in any business other than investing in securities, provided the securities held by the investment company meet the 5 per cent tests mentioned above.

In an interpretation published at p. 21 of the January 1957 Federal Reserve Bulletin, the Board expressed the opinion that the first exemption in section 4(c)(5) -

> ". . . is as applicable to such shares when held by a banking subsidiary of a bank holding company as when held directly by the bank holding company itself. While the exemption specifically refers only to shares held or acquired by the bank holding company, the prohibition of the Act against retention of nonbanking interests applies to indirect as well as direct ownership of shares of a nonbanking company, and, in the absence of a clear mandate to the contrary, any exception to this prohibition should be given equal breadth with the prohibition. Any other interpretation would lead to unwarranted results."

The Board is of the view that the principles stated in that opinion are also applicable to the second exemption in section 4(c)(5), and that they apply whether or not the subsidiary owning the shares is a banking subsidiary. Accordingly, on the basis of the facts presented by the law firm, the Board is of the opinion that the second exemption in section 4(c)(5) applies to the indirect ownership by General Contract Corporation of shares of Investment Company of St. Louis through Subsidiaries A and B.

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.

It will be appreciated if you will advise Thompson Mitchell Thompson & Douglas accordingly.

Approved unanimously.

At the meeting of the Board on January 17, 1957, preliminary consideration was given to a request of The Chase Bank, New York, New York, for permission to increase its investment in Arcturus Investment and Development, Ltd., a wholly-owned Canadian subsidiary, up to $7,500,000. During the discussion at that meeting, reference was made to reported plans of The Chase Bank to become a financing corporation under Regulation K, Corporations Doing Foreign Banking or Other Foreign Financing under the Federal Reserve Act, and to change its name. Since that date letters had been received from The Chase Bank requesting that it be regarded as a financing corporation and indicating an intention to effect a change of name to Chase International Investment Corporation. In a memorandum dated February 14, 1957, copies of which had been sent to the members of the Board, the Division of Examinations recommended that The Chase Bank be granted permission to be a financing corporation, with the understanding that the name of the corporation would be changed to Chase International Investment Corporation. The memorandum also recommended that the proposed additional investment in Arcturus be approved, subject to certain conditions stated in a draft of proposed letter to The Chase Bank.

In discussing the matter, Mr. Goodman said that one important policy question involved was whether conditions applicable to an Edge corporation itself should be made equally binding on a wholly-owned subsidiary of that corporation. He then recalled that recently the Board approved an investment by American Overseas Finance Corporation in the common

stock of a corporation to be organized under Canadian law for the purpose of engaging in the business of hauling chrome ore from mine to port in Turkey and possibly elsewhere, and that the Board's approval was given with the understanding that the proposed stock purchase was an incident to proposed equipment financing and that the stock would be disposed of within a reasonable time after the termination of credit or financing relationships with the proposed company. However, he said, in the case of The Chase Bank the situation was somewhat different because Arcturus was interested primarily in investment projects designed to improve productive private enterprises which would contribute to the development of the economy of the country in which the enterprise was located and where the rate of return warranted the investment.

With regard to the policy question to which Mr. Goodman had referred, Governor Szymczak noted the suggestion in the memorandum from the Division of Examinations that the Board might wish to make requirements applicable to Arcturus similar to those applicable to The Chase Bank which might be accomplished by adding to the proposed letter a clause providing that so long as The Chase Bank was the controlling stockholder in Arcturus, the latter would make no investment in the stock of other corporations except after the consent of the Board had been obtained in the same manner as provided by Section 9(c) of Regulation K for financing corporations.

Mr. Goodman said that the Division of Examinations would favor including such a clause in the letter to The Chase Bank and Mr. Sloan

pointed out that the investment in Arcturus would represent approximately 58 per cent of the capital and surplus of The Chase Bank. Under such conditions, he said, it was felt that the wholly-owned subsidiary should be subject to the same rules with regard to investments as those to which The Chase Bank itself was subject. In an additional comment, Mr. Goodman said one possibility was that The Chase Bank might submit an over-all program for Arcturus which would be acceptable to the Board and regarding which the Board might grant its general consent to purchase and hold stock, up to such amounts and in such circumstances as the Board might prescribe.

The discussion then turned to the proposal of The Chase Bank to change its name and Governor Robertson referred to section 3(b) of Regulation K which provides that no financing corporation hereafter organized shall be permitted to have the word "bank" or "banking" or any similar word as part of its name. He also referred to section 10(c)(2) which provides that no financing corporation hereafter organized shall have a name which is similar to the name of, or identifies the corporation with, any bank in the United States with which such financing corporation is affiliated. He suggested that in the circumstances it would be inappropriate to approve the new name proposed for The Chase Bank.

In a discussion which followed, during which the view was expressed that the proposed name was preferable to the present name, question was raised as to the effect of the words "hereafter organized" in the provisions of Regulation K to which Governor Robertson had referred. On

this point Mr. Vest said that he interpreted the words to mean "hereafter organized as a corporation". He went on to say, however, that the Board nevertheless had full control over such a matter because under section 4 of Regulation K the Board's permission was required for The Chase Bank to become a financing corporation. The Chase Bank would, therefore, have to receive permission for a change in name to one which would eliminate the work "bank".

Governor Vardaman suggested that the inclusion in the name of a financing corporation of words indicating an affiliation with the parent institution might be of some benefit because the public would be on notice that such an affiliation existed. He inquired whether the Board might be disposed at some future time to review the provisions of Regulation K now under discussion and said that personally he would be inclined to favor a change which would permit greater latitude in the use of names.

At the conclusion of the discussion it was the consensus, Governor Robertson dissenting, that the proposed change of name would be acceptable within the language and spirit of Regulation K. Governor Mills refrained from participating in this discussion because the question was related to the provisions of the revised Regulation K and he had opposed the adoption of the revised Regulation.

Consideration then was given to the request of The Chase Bank to make an additional investment in Arcturus and Governor Robertson inquired why, if the clause referred to earlier by Governor Szymczak was included

and Arcturus would be subject to investment restrictions similar to those of The Chase Bank, there would be advantages to Chase in acting through Arcturus.

Mr. Goodman said that The Chase Bank probably felt that it would have a little more flexibility in operating through Arcturus, since the latter was a Canadian corporation. Actually, if the proposed clause were included, he felt that The Chase Bank might find that it could do less indirectly through Arcturus than it could do direct. However, there might be some enterprises in which they would prefer not to have the name of The Chase Bank come into the picture.

Mr. Marget suggested that in Canada there was a great deal of discussion about American infiltration into Canadian ownership and that for this reason there might be some advantage to The Chase Bank from the public relations standpoint in acting through the Canadian subsidiary.

Further discussion of the matter concerned the aims and purposes of Arcturus as stated by The Chase Bank on various occasions.

At the conclusion of the discussion, approval was given to a letter in the following form to Mr. Robert H. Craft, President of The Chase Bank, New York, New York, with a copy to the Federal Reserve Bank of New York, Governor Mills not voting for the reason which he had stated and Governor Robertson voting "no" on the new name proposed for The Chase Bank:

Pursuant to the request contained in your letter of January 15, 1957, the Board of Governors grants permission

for The Chase Bank to be a Financing Corporation, subject to the provisions of Regulation K as revised effective January 15, 1957. This permission is granted with the understanding that the name of the corporation will be changed from "The Chase Bank" to "Chase International Investment Corporation" as indicated in your letter of February 4, 1957, to Mr. Alfred Hayes, President, Federal Reserve Bank of New York.

According to the report of condition of The Chase Bank as of December 31, 1956, deposits were held at Home Office in the aggregate amount of $357,806.48, representing unclaimed deposits and outstanding drafts of the former Shanghai and Tientsin branches (less payment to Bank of China, Shanghai) of $77,806.48 and a £100,000 Sterling Time Deposit of your subsidiary, The Chase Manhattan Executor and Trustee Corporation, Limited, London, booked at $280,000. The Hong Kong Branch (in Liquidation) showed deposits (less payment to Bank of China) of $185,409.88. In view of the special nature of these accounts, no objection will be interposed to the maintenance of such accounts by the Financing Corporation provided reserves are maintained against such deposits as required by Section 6(b) of Regulation K with respect to deposits of Banking Corporations.

In accordance with the request contained in your letter of November 21, 1956, the Board of Governors grants its consent and approval, for the purposes of Sections 9(c), 9(d)(2), and 10(a) of Regulation K, to The Chase Bank to make a further investment in Arcturus Investment & Development, Ltd., Montreal, Canada, in form (whether stock or obligations) to be decided upon by The Chase Bank up to an amount which, with the existing investment, will not exceed U.S. $7,500,000, subject to the same conditions as stated in the attachment to the Board's letter of December 29, 1954, authorizing the initial investment in Arcturus.

The Board's approval of the proposed additional investment in Arcturus is given with the further understanding (1) that such investment shall be made within one year from the date of this letter and that the Board of Governors will be informed, through the Federal Reserve Bank of New York, as, if, and when such additional investments are made, together with pertinent details regarding such investments;

(2) that Arcturus shall carry on its business in accordance with sound financial policies including, among other considerations, (a) appropriate diversification of its loan and investment portfolios so as to avoid undue concentrations in loans to, and investments in, individual enterprises, industries, or otherwise and (b) proper regard to the relationship between its assets and the maturities of its obligations so as to give reasonable assurance that the company will be in a position to pay its obligations as they mature; (3) that, so long as The Chase Bank is the controlling stockholder in Arcturus, Arcturus will make no investment in the stock of other corporations except after the consent of the Board of Governors has been obtained in the same manner as provided by Section 9(c) of Regulation K for Financing Corporations; and (4) that The Chase Bank will be expected to dispose of the stock and obligations of Arcturus as promptly as practicable in the event that it should appear to the Board of Governors at any time that Arcturus is engaging in loan, investment, or other activities or operations which could be regarded as being inconsistent with the provisions of Section 25(a) of the Federal Reserve Act or the regulations thereunder.

During the foregoing discussion Mr. Fauver, Assistant Secretary, entered the room and at its conclusion Messrs. Vest, Sloan, Marget, Shay, Masters, and Goodman withdrew.

Reference was made to a request of the Executive Committee of the National Association of Supervisors of State Banks to meet with the Board on Thursday, April 11, 1957, to discuss matters of common interest, and it was stated that current plans called for a visit to the Federal Reserve Building by officers of the Connecticut Savings Bank Association on the same day.

It was agreed that a favorable response should be

made to the National Association of Supervisors of State Banks and that, if possible, arrangements should be made for the Connecticut Savings Bank Association to change the date of its visit.

With reference to the program yesterday for newly-appointed Federal Reserve Bank and branch directors, Governor Vardaman said that he would like to review the program while it was fresh in everyone's mind and to have the Board consider the advisability and practicability of combining such meetings in the future with meetings of the Conference of Chairmen of the Federal Reserve Banks, with the program extending over a two-day period.

It was agreed that these matters would be discussed by the Board at a meeting in the near future when Governor Vardaman was present.

The meeting then adjourned.

Secretary's Note: On February 20 and 21, 1957, Governor Shepardson approved on behalf of the Board the following items:

Memoranda from appropriate individuals concerned recommending actions with respect to members of the Board's staff as follows:

Appointment

Mary Patricia Barlow, as Statistical Clerk in the Division of Bank Operations, with basic annual salary at the rate of $3,345, effective the date she assumes her duties.

Transfer

Virginia J. Ogilvie, from the position of Secretary in the Board Members' Offices to the position of Secretary in the Division of Research and Statistics, with an adjustment in her basic annual salary from $6,390 to $4,890, effective the date she assumes her new duties.

Salary increases, effective February 24, 1957

Name and title	Division	Basic annual salary From	To
	Research and Statistics		
Joan I. Darby, Clerk 1/		$3,430	$3,585
	Examinations		
Frank C. Guth, Jr., Review Examiner 2/		8,430	8,990
Peggy Ann Long, Secretary		3,670	4,080
	Administrative Services		
Charles E. Crowell, Chauffeur		3,550	3,635
Andrew Fassino, Assistant Foreman, Laborers		3,370	3,525
Claiborne Johnson, Operator, Offset Press		5,054	5,179
Charles R. Norris, Head Messenger		3,770	3,855

Memorandum from the Division of Examinations dated February 19, 1957, recommending that the Office of the Controller be authorized to make available for training purposes during each session of the Inter-Agency Bank Examination School for Assistant Examiners in 1957 sums not to exceed

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1/ With change in title from Clerk-Typist to Clerk and change in basis of employment from half-time to full-time.
2/ With change in title from Federal Reserve Examiner.

$9,000 in currency (paper and metallic) with the understanding that the currency, while in use, would be under the responsibility of Glenn M. Goodman, Assistant Director, Division of Examinations, and that when not in use for the purposes specified, and in any event at the end of each day, it would be returned to the Fiscal Section of the Office of the Controller.

Letter to Mr. Diercks, Vice President, Federal Reserve Bank of Chicago, reading as follows:

> In accordance with the request contained in your telegram of February 18, 1957, the Board approves the designation of Harrison Manley as a special assistant examiner for the Federal Reserve Bank of Chicago.

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

> In accordance with the request contained in your letter of February 15, 1957, the Board approves the designation of the following employees of your bank as special assistant examiners for the Federal Reserve Bank of Kansas City for the purpose of participating in the examinations of the Commerce Trust Company, Kansas City, Missouri, and The International Trust Company, Denver, Colorado:
>
> Shirley L. Carr
> Robert J. Cordry
> Thomas N. Duvall
> Betty L. Hisey
> Dorothy M. Norris
> Jesse E. Tuggle
> Chester Wisneiswski
>
> The name of C. B. Scott has been deleted from the list of special assistant examiners.

Letter to Mr. B. R. Kennedy, Director, Federal Register Division, National Archives and Records Service, General Services Administration, Washington, D. C., reading as follows:

> In response to a recent telephone request from your office, this letter is for the purpose of providing formal notice of the designation by the Board of Governors

of the Federal Reserve System, under 1 CFR 1.21, of Wilson L. Hooff, Assistant Counsel, as Liaison Officer, and of the designation of the Secretary or any Assistant Secretary of the Board as Certifying Officer and as Authorizing Officer.

Secretary