The attached set of minutes of the Board of Governors of the Federal Reserve System on March 20, 1957, which you have previously initialed, has been amended at the request of Governor Robertson to revise the second paragraph on page 8.

If you approve these minutes as amended, please initial below.

	A	B
Governor Szymczak	x MSS	
Governor Balderston	x CCB	
Governor Shepardson		x CNS

Minutes for March 20, 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 WM	
Gov. Szymczak	x MS	
1/Gov. Vardaman		x
Gov. Mills	x	
Gov. Robertson	x R	
Gov. Balderston	x CCB	
Gov. Shepardson		x CCS

1/ In accordance with Governor Shepardson's memorandum of March 8, 1957, these minutes are not being sent to Governor Vardaman for initial.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, March 20, 1957. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Molony, Special Assistant to the Board
Mr. Hackley, Associate General Counsel
Mr. Hexter, Assistant General Counsel
Mr. Garfield, Adviser, Division of Research and Statistics
Mr. Noyes, Adviser, Division of Research and Statistics
Mr. Robinson, Adviser, Division of Research and Statistics
Mr. Reynolds, Economist, Division of International Finance

Current economic situation. Following a factual summary of the economic situation by Mr. Young, which indicated in general a sidewise movement at high levels of production and employment, he and the other members of the Board's economic staff interpreted the factual information in terms of prospective developments, particularly for the period beyond the immediate future.

With regard to whether a turning point in the economy had been reached, Mr. Young expressed the view that a turning point cannot be identified at the time - only after the fact - and said that there must be a generality of downward indications. The latter situation, he said, had not developed, the underpinnings of the economy appearing to be quite strong and the framework of financing also appearing to be strong. He went on to say that if credit and monetary policy continued to remain taut, if a better adjustment between saving and investment demand could be achieved, and if customers maintained their purchasing enthusiasm so that businesses could see markets for their products, the year 1957 could turn out to be a high-level year and forces could be gathered for a resumption of advances in the economy in 1958. In the absence of proper adjustments, however, the economy could find itself with more and more problems and become psychologically vulnerable to the extent that a downturn might occur. If credit and monetary policy should shift into "easy gear", he felt that the possibility of the resumption of inflationary pressures could not be avoided.

Mr. Garfield's remarks were directed principally toward those statistics which could be interpreted to indicate softness in certain parts of the economy and the alternative results which might develop from the current picture. He saw a real question whether the cost-price problem would become so serious as to cause businesses to proceed cautiously and await developments. While the tentative decision might be to try to gain relief from the price squeeze through new financing to improve facilities, this in turn might depend on the ease of financing and the thinking of business management concerning future prospects. In summary, he saw a mixture of current developments which over the longer run could conceivably result in either an upward or downward movement in the economy.

Mr. Robinson discussed recent indications, difficult to evaluate at this time, which tended to show some increase in savings at commercial banks. Whether there had been any real change in the overall pattern of savings was inconclusive, and recent changes in bond prices might reflect only a feeling of prospective reduced demand for funds. Mr. Robinson also stated reasons why, in his opinion, an easing of credit policy would not be apt to stimulate State and local government financing to the same extent as in 1954.

Mr. Thomas drew comparisions between the current situation and that prevailing in the 1920s and also called attention to the dissimilarities. He reported information tending to show that businesses generally planned to continue with capital expenditure programs, but that they likewise were giving serious attention to ways of cutting operating costs, with the result that profits might improve later this year. While businessmen were understood to anticipate further price increases, they contemplated difficulty in making those increases and were apt to resist more strongly efforts to adjust wages upward. Mr. Thomas reported that there appeared to have been no striking credit developments since the first of the year. From the most recent available statistics, he saw some indication that commercial bank credit expansion this spring would be fairly close to the rate during the comparable period last year.

Mr. Noyes commented on the large continued flow of funds into financial institutions by way of repayments and distinguished this from the situation prevailing in 1955 and 1956. He did not think that a reduction in consumer enthusiasm would necessarily bring about a recession due to certain large backlogs, including deferred State and local government projects. He also noted that the technological basis for plant and equipment expenditures had not been exhausted.

Mr. Riefler called attention to the objectives of Federal Reserve credit policy over the past two years and appraised current economic developments in the light of those objectives. It was his conclusion that the adjustments taking place in the economy were consistent with what Federal Reserve policy had tried to bring about in all major sectors of the economy. There was no clear indication, in fact, that the adjustments were of as great a magnitude as had been hoped for in the formulation of monetary and credit policy. Turning to a broader subject, he said that, as opposed to the 1920s, the keynote of the present economy was a structure of high incomes, with expectations of further income growth and credit commitments based on such expectations. If there should be any grave trouble ahead, he felt that it would be caused by a breakdown in that situation. Should the community come to accept the idea of creeping inflation, the cost of borrowing would become no deterrent and high rates of return would not constitute an encouragement to more saving. He concluded that a shift of credit and monetary policy in the direction of greater ease to avoid the adjustments now taking place in the economy would enhance the likelihood of dangerous ultimate consequences.

Messrs. Young, Molony, Garfield, Noyes, and Reynolds then withdrew and Messrs. Sloan, Masters, and Goodman of the Division of Examinations entered the room along with Messrs. Johnson, Sprecher, and Stetson of the Division of Personnel Administration.

Items which had been circulated to the Board. The following items, which had been circulated to the members of the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	Item No.
Memorandum from Messrs. Young and Marget recommending that Mr. Miller, Chief, Government Finance Section, Division of Research and Statistics, be authorized to visit the Center for Latin American Monetary Studies in Mexico City at the conclusion of the Fifth Meeting of Central Bank Technicians of the Western Hemisphere, to be held in Bogota, Colombia, June 3-15, 1957.	1
Letter to the Federal Reserve Agent, Federal Reserve Bank of New York, approving the appointment of John G. Kauderer as Assistant Federal Reserve Agent.	2
Letter to The Chase Manhattan Bank, New York, New York, extending the time for the bank to establish its branch in the Rio Piedras section of San Juan, Puerto Rico, at a permanent location. (For transmittal through the Federal Reserve Bank of New York.)	3
Letter to The First National City Bank of New York, New York, New York, extending the time for establishment of a third branch in Mexico City, Mexico. (For transmittal through the Federal Reserve Bank of New York.)	4

Letter to The Dover Trust Company, Dover, New Jersey, approving the establishment of an in-town branch and an investment in premises for use by the branch. (For transmittal through the Federal Reserve Bank of New York.) 5

Letter to the Federal Reserve Bank of Richmond concurring in the view that section 32 of the Banking Act of 1933 would prohibit an officer, director, or employee of a member bank from serving at the same time as an officer, director, or employee of Mutual Investment Trust for Profit Sharing-Retirement Plans, Incorporated. 6

Letter to The Michigan Bank, Detroit, Michigan, approving the establishment of a branch in the 1400 block of Woodward Avenue. (For transmittal through the Federal Reserve Bank of Chicago.) 7

Letter to Security Trust & Savings Bank of San Diego, San Diego, California, approving the establishment of a branch in the North Clairemont Business Center. (For transmittal through the Federal Reserve Bank of San Francisco.) 8

Member banks' repurchase agreements covering Government securities. In a memorandum dated January 9, 1957, the Division of Examinations raised the question whether such transactions should be regarded by examiners for the Federal Reserve Banks as (1) purchases and sales of Government securities and therefore subject to no legal limitation on amount, or (2) loans secured by Government obligations and therefore subject, in the case of State member banks, to the limitations prescribed by section 11(m) of the Federal Reserve Act, which section makes applicable to State member banks the same limitations and conditions as are applicable in the case of national banks under paragraph (8) of section 5200 of the Revised Statutes. This memorandum had been circulated to the members of the Board along with a memorandum from the Legal Division, dated March 7, 1957, which expressed the opinion that transactions of this kind constitute in reality, and as a matter of law, loans by the "purchasing" bank to the "selling" bank within the meaning of section 11(m). It was stated that this opinion appeared to be in accord with judicial decisions in analogous situations and that it likewise was in accord with the views of the Comptroller of the Currency and the Federal Reserve Bank of New York. The position also was taken that to regard such transactions among member banks as loans would not be inconsistent with the position of the Federal Open Market Committee that the use of repurchase agreements is within the legal authority of the Federal Reserve Banks under section 14 of the Federal Reserve Act.

The memorandum from the Legal Division then called attention to the question of the applicable limitation under section 11(m), which prescribes a general limit of 10 per cent of a bank's capital and surplus with respect to loans to any one borrower secured by stock or bond collateral, with a proviso that the limit shall be 25 per cent in the case of loans represented by obligations in the form of notes with Government securities as collateral. It was understood that the Comptroller of the Currency currently regarded the 25 per cent limitation as applicable to repurchase agreement transactions among banks, even where the obligations were not in the form of notes; for example, in the case of oral repurchase agreements. The memorandum reported some members of the Legal Division to feel that the Board would be justified in applying the same limitation regardless of whether the repurchase agreements were literally in the form of notes. In any event the proposed Financial Institutions Act contained a provision, recommended by the Comptroller, which would delete the phrase "in the form of notes" from paragraph (8) of section 5200 of the Revised Statutes, so that if this bill were passed the question would be eliminated.

In a discussion of the matter, Governor Robertson commented that the Comptroller's Office had taken an inconsistent position regarding repurchase agreements, holding that such transactions between banks constitute loans but not applying the ruling to such transactions between banks and dealers. In view of having held the transactions between banks to constitute loans, he had urged the Comptroller to take advantage of the provisions of paragraph (8) of section 5200 to make a ruling, with the approval of the Secretary of the Treasury, which would apply a limitation of 100 per cent of capital and surplus to such loans made to any one borrower. This would leave only the question of the status of repurchase agreements between banks and dealers, and on this question he would prefer to do nothing at this time and await developments during a six-month period. If it then was found that the new ruling did not correct the problem facing dealer operations in Government securities, the matter would be given further consideration and a way found to deal with the problem.

Governor Mills expressed the thought that a final decision by the Board on the questions presented by the staff memoranda should be deferred until full agreement had been reached with the Comptroller's Office and, in the light of such agreement, the Board could appraise the implications of the situation. He felt that action by the Comptroller to liberalize the loan limitations might have effects related to the use of borrowed funds under repurchase agreements that deserved careful consideration.

In view of the questions raised by Governor Mills, there was unanimous agreement with a suggestion by Governor Robertson that the matter be deferred for further study and additional consideration by the Board.

Messrs. Riefler, Thomas, and Hexter then withdrew from the meeting.

Proposed changes in Retirement System of the Federal Reserve Banks. There had been received by the Board copies of the report of the Special Joint Committee appointed to review the proposals of Industrial Relations Counselors Service, Inc., concerning the Bank Plan of the Retirement System of the Federal Reserve Banks. The recommendations of the Special Joint Committee were discussed in a memorandum from the Division of Personnel Administration dated March 14, 1957, copies of which also had been sent to the members of the Board.

Chairman Martin asked whether it was the wish of the Board to invite President Johns, Chairman of the Special Joint Committee, to meet with the Board next week to explain the recommendations of the Committee or whether the Board considered the matter sufficiently clear to go ahead without such a meeting.

Governor Robertson indicated that he would like full explanation of the recommendations before acting on the matter. Accordingly, he suggested that the Board first meet with its staff, and at a later appropriate time, arrange to meet not only with Mr. Johns but with the other members of the Special Committee and the actuary for the Federal Reserve Retirement System.

Other members of the Board having agreed with the procedure suggested by Governor Robertson, it was understood that the Board would meet with its staff tomorrow at 9:30 a.m. for preliminary discussion of the recommendations.

Appointment of Federal Reserve Agent's Assistants and Representatives. At the meeting on March 8, 1957, the Board approved the recommendation contained in a memorandum from Mr. Goodman that the Board's letter of August 15, 1956, with respect to the appointment of Assistant Federal Reserve Agents, Alternate Assistant Federal Reserve Agents, and Agent's Representatives at branches be superseded by a letter submitted with the memorandum. Prior to this meeting there had been distributed to the members of the Board copies of a memorandum from Mr. Goodman dated March 18, 1957, suggesting that there be added to the proposed letter language which would request the Federal Reserve

Agent, in the case of each such appointment, to obtain from the General Auditor a written statement that, in the latter's opinion, no conflict would exist between the appointee's regular job and his special responsibilities in aiding the Federal Reserve Agent to safeguard the currency and other assets entrusted to him. The memorandum explained that this suggestion resulted from staff discussion subsequent to the March 8 Board meeting and that Governor Balderston was in agreement with the proposal.

Following a statement by Mr. Goodman concerning the reasons for the proposed addition to the letter, the recommendation contained in his memorandum was approved unanimously. A copy of the letter sent pursuant to this action is attached to these minutes as Item No. 9.

In this connection, agreement was expressed with the suggestion that the subject of procedures relating to the appointment of Federal Reserve Agent's Assistants and Representatives be kept in mind as an agenda item for the next meeting of the Conference of Chairmen of the Federal Reserve Banks.

Messrs. Johnson, Sprecher, and Stetson then withdrew from the meeting and Mr. Farrell, Assistant Director, Division of Bank Operations, entered the room.

Investment of funds of a common trust fund in shares of an investment trust. The Federal Reserve Bank of Boston had inquired, on behalf of a member bank, whether an investment for the bank's common trust fund in shares of an investment trust would be contrary to the provisions of section 17 of the Board's Regulation F. A memorandum from the Division of Examinations dated February 20, 1957, which had been circulated to the members of the Board, indicated that this was the first occasion for consideration of this question by the Board. For reasons stated, it was the view of the Division that the use of mutual investment fund shares for common trust fund investment should not be permitted for common trust funds established under the provisions of section 17. While present provisions of Regulation F do not deal specifically with the question presented by the inquiry, the memorandum pointed out that section 17(c)(8) requires the trustee of a common trust fund to retain exclusive management of the fund and prohibits the charging of participating trusts with additional fees because of their participation in the common trust fund. Possible courses of action open to the Board were set forth as follows: (1) to interpret the provisions of section 17(c)(8) to prohibit the investment of the funds of a common trust fund in shares of a mutual investment fund; (2) to take steps to amend Regulation F so as expressly to prohibit such investment; and (3) to take no exception to the specific investment proposed by the member bank concerned (Old Colony Trust Company, Boston, Massachusetts) but nevertheless to express the view that investment in investment trust shares is inconsistent with the stated purposes and uses of common trust funds and indicate that, should the practice become prevalent, the Board would give further consideration to the problem, with the possibility that Regulation F would be amended to deal with the matter expressly.

The memorandum stated that the Division of Examinations favored the first alternative. Accordingly, there was submitted with the memorandum a draft of letter to the Boston Reserve Bank taking such a position.

At the request of the Board, Mr. Masters discussed the question presented by the Boston Bank and reviewed the possible alternative courses of action. In response to a question, he pointed out that the proposed letter would be confined to the investment of funds of a common trust fund and would refrain from expressing any views as to the propriety of investment of the funds of individually invested trusts in investment trust shares. He also explained why it was believed that it would be inappropriate for the Board to express views with respect to individually invested trusts.

At the conclusion of the discussion, agreement was expressed with the alternative recommended in the memorandum from the Division of Examinations. Accordingly, unanimous approval was given to a letter to the Federal Reserve Bank of Boston in the form attached to these minutes as Item No. 10, with the understanding that copies of the letter would be sent to the Presidents of all Federal Reserve Banks for their information.

Messrs. Sloan, Masters, and Goodman then withdrew from the meeting.

Sale of San Antonio Branch building. Chairman Martin stated that President Irons of the Federal Reserve Bank of Dallas had called on the telephone regarding the matter, stating that he was not certain whether this was a matter requiring the Board's approval but that he would like to explain the situation and have advice. It appeared that the building had been appraised by three independent appraisers at figures of $125,000, $127,500, and $135,000; that the head office and branch boards had concurred in offering the building at $150,000; that the only indication of interest was at $90,000 - which was not a formal offer; but that the Mexican Government had now shown interest in obtaining the building for use as a consulate. The price offered was $150,000, payable over a 10-year period with monthly payments of $1,250 plus interest on the unpaid balance at 4½ per cent. Mr. Irons was now endeavoring to reach agreement on a 5-year period, but with no present indication whether these negotiations would be successful. Counsel for the Dallas Bank was reported to be convinced that matters could be worked out so that, in event of default, the Bank would reacquire the property without any problems, except those which might be involved due to the fact that a foreign government was concerned.

Mr. Farrell cited the sale of a piece of property in Pittsburgh by the Federal Reserve Bank of Cleveland on a deferred payment basis. He also stated that sales of premises by the Reserve Banks apparently had not been considered as requiring Board approval in the past.

In this connection, Mr. Vest called attention to the provisions of Regulation N relating to Reserve Bank negotiations with a foreign State. While these provisions of course were written with a different purpose, it was conceivable, he said, that they might be considered applicable to this situation.

The view was stated by members of the Board that, except for a check with the State Department regarding the international aspects, the matter should be treated as an ordinary business transaction which should be decided in the discretion of the Reserve Bank directors, with approval by the Board to the extent deemed necessary in the light of the provisions of Regulation N.

Accordingly, it was agreed unanimously that Chairman Martin would advise President Irons that, subject to informal clearance with the State Department, the Board was agreeable to whatever arrangement might be worked out by the Bank with the Mexican Government, assuming that the Bank would endeavor to negotiate as short a period of payment as possible.

The meeting then adjourned.

Secretary's Note: On March 19, 1957, Governor Balderston, acting as alternate to Governor Shepardson, approved on behalf of the Board the following items, copies of which are attached to these minutes under the respective item numbers indicated:

	Item No.
Letter to the Federal Reserve Bank of Philadelphia relating to certain indebtedness of Examiner Gurdon G. Potter.	11
Letter to the Federal Reserve Bank of Cleveland approving the appointments of Messrs. Robinson, Thomas, Poelking, and Willis as examiners.	12

Secretary's Note: Pursuant to action taken by the Board on March 8, 1957, the letter described as follows was sent today and a copy is attached to these minutes under the item number indicated:

Letter to the Federal Reserve Agent, Federal Reserve Bank of New York, relating to the selection of Agent's Representatives who maintain joint custody of securities held in the System Open Market Account. 13

Secretary

Item No. 1
3/20/57

To: Board of Governors

March 13, 1957

From: Ralph A. Young and Arthur W. Marget

Subject: Travel of Mr. Donald C. Miller

By way of supplement to Mr. Marget's memorandum of March 8 we wish to recommend that Mr. Donald C. Miller be authorized travel and per diem allowance sufficient to permit him, after the conclusion of the Bogota meeting of central bank technicians, to visit the Center for Latin American Monetary Studies in Mexico City for a period of three days. This would make it possible for Mr. Miller to participate in the informal discussions at the Center described in the letter of Dr. Javier Marquez, Director of the Center, to Chairman Martin, dated December 29, 1956, and in Dr. Marquez' letter of the same date to Mr. Marget, emphasizing the desirability of participation by System personnel in these informal discussions. The relevant paragraphs from the two letters are appended hereto.

(Signed) RAY

(Signed) AWM

Attachment

Item No. 2
3/20/57

March 20, 1957

Mr. John E. Bierwirth,
Federal Reserve Agent,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Bierwirth:

In accordance with the request contained in your letter of February 21, 1957, the Board of Governors approves the appointment of Mr. John G. Kauderer as Assistant Federal Reserve Agent at the Federal Reserve Bank of New York to succeed Mr. Richard E. Hunke.

This approval is given with the understanding that Mr. Kauderer 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 Agent, to the Board of Governors for the proper performance of his duties. When not engaged in the performance of his duties as Assistant Federal Reserve Agent he may, with the approval of the Federal Reserve Agent, and the President, perform such work for the Bank as will not be inconsistent with his duties as Assistant Federal Reserve Agent.

Mr. Kauderer should execute the usual oath of office, which should be forwarded to the Board of Governors, together with advice of the effective date of his appointment.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 3
3/20/57

March 20, 1957

Mr. Charles Cain, Jr.,
Executive Vice President,
The Chase Manhattan Bank,
18 Pine Street,
New York 15, New York.

Dear Mr. Cain:

In view of the request contained in your letter of March 4, 1957, transmitted through the Federal Reserve Bank of New York, and on the basis of the information contained therein, the Board of Governors extends to May 31, 1957, the time within which The Chase Manhattan Bank may establish a branch at 1012 Munoz Rivera Avenue in the Rio Piedras section of the City of San Juan, Puerto Rico, under the authority granted in the Board's letter of January 23, 1956.

It is understood that The Chase Manhattan Bank will continue to operate its temporary branch in the Monserrate Building at the northwest corner of Munoz Rivera Avenue at University Avenue, in the Rio Piedras section of San Juan, as authorized by the Board's letter of March 14, 1956, pending completion of the permanent quarters.

It is requested that you advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the branch is established in its permanent quarters.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 4
3/20/57

March 20, 1957

The First National City Bank
of New York,
55 Wall Street,
New York 15, New York.

Gentlemen:

In view of the request contained in your letter of February 21, 1957, addressed to the Federal Reserve Bank of New York, a copy of which has been furnished to the Board of Governors, and on the basis of the information contained therein, the Board extends to December 31, 1957, the time within which you may establish a third branch in Mexico City, Mexico, to be located on, or adjacent to, Avenida Insurgentes, under the authority granted in the Board's letter of September 9, 1955.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 5
3/20/57

March 20, 1957

Board of Directors,
The Dover Trust Company,
Dover, New Jersey.

Gentlemen:

Pursuant to your requests submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System approves the establishment of a branch by The Dover Trust Company, Dover, New Jersey, at the corner of Clinton and Pequannock Streets in the city of Dover, New Jersey, and, under the provisions of section 24A of the Federal Reserve Act, also approves an investment of not to exceed $133,000 (including cost of land) by The Dover Trust Company for the purpose of constructing premises to be used by the branch, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 6
3/20/57

March 20, 1957

Mr. Aubrey N. Heflin,
Vice President and General Counsel,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Heflin:

Reference is made to your letter of February 19, 1957, and previous correspondence regarding the question whether section 32 of the Banking Act of 1933 would prohibit a director of a member bank from serving at the same time as a director of Mutual Investment Trust for Profit Sharing-Retirement Plans, Incorporated.

It appears that the Corporation will be an open-end investment trust organized for the purpose of being an instrument for the investment of funds set aside in trust by business organizations under profit sharing and retirement plans. The Corporation will not issue its shares to the general public. When an employee dies or retires, or terminates his employment, or the plan is terminated, the trustees under the retirement plan will redeem a portion of the shares of the Corporation which they have purchased and thus obtain funds to pay the employee the amount due him.

The Board has consistently taken the position that an ordinary open-end investment company is "primarily engaged" in the sale of its shares and there would appear to be no reason to reach a different conclusion in this case. As you point out, it seems immaterial that the funds which will be available for the purchase of the shares of the Corporation will come from trustees of profit sharing and retirement plans, rather than from the general public. In fact, as you further point out, special temptations might arise out of a relationship of the kind under consideration because many member banks are now acting as trustees of employee profit sharing and retirement plans.

Consequently, the Board agrees with you that section 32 of the Banking Act of 1933 prohibits an officer, director, or employee of a member bank from serving at the same time as an officer, director, or employee of Mutual Investment Trust for Profit Sharing-Retirement Plans, Incorporated.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 7
3/20/57

March 20, 1957

Board of Directors,
The Michigan Bank,
Detroit, Michigan.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors approves the establishment of a branch by The Michigan Bank on the east side of the 1400 block of Woodward Avenue between Grand River Avenue and John R. Street, Detroit, 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.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 8
3/20/57

March 20, 1957

Board of Directors,
Security Trust & Savings Bank of San Diego,
San Diego, California.

Gentlemen:

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 the intersection of Clairemont Drive and Clairemont Mesa Boulevard in the North Clairemont Business Center, San Diego, California, by Security Trust & Savings Bank of San Diego, San Diego, California, provided the branch is established within one year from the date of this letter and that approval of the California State Superintendent of Banks is effective at the time the branch is established.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 9
3/20/57

S-1624

March 20, 1957

Dear Sir:

In its letter of August 15, 1956 (S-1601) with respect to the appointments of Assistant Federal Reserve Agents, Alternate Assistant Federal Reserve Agents, and Federal Reserve Agent's Representatives at Branches, the Board requested comments as to the desirability and practicability of a proposal that future appointments to these positions be made, so far as practicable, from the personnel of the Bank Examination Department (official or clerical but not Field Examiners) at each Federal Reserve Bank and from personnel operating the Fiscal Agency Function at the Branches.

In response to the Board's letter, two of the replies indicated that appointments could be made in conformity with the suggestion; one suggested that the functions be indicated from which appointments should not be made; two did not comment on the suggestion; and the remainder indicated that they preferred more latitude, felt that certain deviations or exceptions would need to be made, or regarded the proposal as impracticable in their situations.

The Board believes there are two important criteria to be borne in mind in the selection of personnel for the Federal Reserve Agent's function: first, unquestioned integrity, trustworthiness, and proven dependability; and, second, no conflict between the employee's regular position and his responsibilities as a member of the staff of the Federal Reserve Agent.

The first point presents no problem since in all cases the staff member is selected on the basis of his record at the Reserve Bank which would establish his qualifications for the assignment.

It is more difficult to make a statement of a policy which will insure no conflict between an appointee's regular position and his responsibilities as a member of the staff of the Federal Reserve Agent. This is so because department names and position titles are not always fully descriptive of the actual duties performed by an employee. However, it would be well for persons appointed in the future as Assistant Federal Reserve Agents, Alternate Assistant Federal Reserve Agents, and Federal Reserve Agent's Representatives at Branches to be in no way associated with the cash or audit functions or with the vault and securities custody functions for the Federal Reserve Bank. Whether the duties of the regular position of a person working in any other function of the Reserve Bank would be in conflict with service as a member of the staff of the Federal Reserve Agent would depend on the circumstances in each individual case, but in no case should a person be appointed to the Federal Reserve Agent's staff where there would be any question of such conflict.

To assist the Federal Reserve Agent to decide this question, it is requested that he obtain from the General Auditor a written statement that, in the latter's opinion, no conflict would exist between the proposed appointee's regular job and his special responsibilities in aiding the Federal Reserve Agent to safeguard the currency and other assets entrusted to him. In order that the Board's records may be complete, it would be helpful if a copy of such statement were sent to the Board with the request for approval of the appointment.

In selecting a proposed appointee, the Federal Reserve Agent and the Board of Governors both need to be fully informed regarding the person selected. Therefore, with respect to each individual hereafter recommended for approval as an Assistant Federal Reserve Agent, Alternate Assistant Federal Reserve Agent, or Federal Reserve Agent's Representative at a Branch, it is requested the Board be furnished with the following information with respect to such proposed appointee:

1. Name, date of birth, place of birth, marital status, and number of other dependents.

2. Date of employment and positions held with Reserve Bank, previous experience, present position and brief description of duties, present salary, and grade.

3. Education, including names of schools and colleges attended and degrees or certificates received.

4. Information as to proposed appointee's indebtedness, if any other than current personal or household bills, showing obligee, purpose, and security.

It will be appreciated if you will submit in connection with all new appointees a recent photograph (not over 4 x 6 inches in size) and a copy of any memorandum prepared in connection with the appointment.

It is requested that letters requesting approval of the appointments of Assistant Federal Reserve Agents, Alternate Assistant Federal Reserve Agents, and Representatives of the Federal Reserve Agent at Branches be signed by the Chairman of the Board and Federal Reserve Agent. If he is absent, the Assistant Federal Reserve Agent should forward the request and indicate whether or not the Federal Reserve Agent has had an opportunity to review the proposed appointment.

Letter S-1601 of August 15, 1956 is superseded by this letter.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.
Chairman.

TO THE CHAIRMEN AND FEDERAL RESERVE AGENTS
OF ALL FEDERAL RESERVE BANKS (COPY TO PRESIDENTS)

Item No. 10
3/20/57

March 20, 1957

Mr. E. O. Latham, First Vice President,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Latham:

This refers to your letter of December 14 relative to the inquiry of Old Colony Trust Company, Boston, whether an investment for its common trust fund in shares of an investment trust would be contrary to the provisions of section 17, Regulation F.

Section 17, in defining common trust funds, the purposes of their authorization, and the limitations on their use, makes it clear that such funds are authorized as investment trusts for a special and restricted fiduciary purpose, under the exclusive management of the bank maintaining such funds. Having in mind the special purpose and use of common trust funds, the Board is impressed with the administrative inconsistency of investing any portion of such funds in investment trust shares. Furthermore, it is specifically provided in subsection 8, section 17(c), that a bank administering a common trust fund "shall have the exclusive management thereof" and that such bank "shall not pay a fee, commission, or compensation out of the common trust fund for management."

In the opinion of the Board, the use of investment trust shares for common trust fund investment would involve a delegation of investment management and payment of compensation for investment management services which would be both inconsistent with the stated purposes and uses of such funds and in violation of the quoted provisions of the Regulation. This opinion, of course, only concerns itself with the investment of the funds of a common trust fund in investment trust shares and is not intended to express any view as to the propriety of such an investment for individually invested trusts.

It will be appreciated if you will advise Old Colony Trust Company of the Board's view on this matter.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

Item No. 11
3/20/57

March 19, 1957

CONFIDENTIAL (FR)

Mr. Joseph R. Campbell, Assistant Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia 1, Pennsylvania.

Dear Mr. Campbell:

This refers to your letter of March 12, 1957, with respect to the indebtedness of Examiner Gurdon G. Potter to The Philadelphia National Bank, Philadelphia, Pennsylvania, in the present amount of $1,102, payable in monthly instalments, final payment due August 23, 1958.

It is understood that the loan represented by this indebtedness was originally made by a nonmember bank which has merged with The Philadelphia National Bank. Therefore, the loan does not appear to come within the provisions of sections 217 and 218 of the Criminal Code dealing with loans by member banks to examiners of such banks. Accordingly, no objection will be interposed to his continuing the loan to maturity, with the understanding that Examiner Potter will not be permitted to participate in any examinations of The Philadelphia National Bank until his indebtedness to such bank has been liquidated or otherwise eliminated.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 12
3/20/57

March 19, 1957

Mr. Paul C. Stetzelberger, Vice President,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio

Dear Mr. Stetzelberger:

In accordance with the requests contained in your letters of March 13, 1957, the Board approves the appointments of Kenneth C. Robinson, Eric H. Thomas, John A. Poelking, and Kenneth T. Willis as examiners for the Federal Reserve Bank of Cleveland.

If the appointments are not made effective May 5, 1957, as planned, please advise the Board.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 13
3/20/57

March 20, 1957

Mr. John E. Bierwirth, Federal Reserve Agent,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Bierwirth:

Reference is made to Assistant Federal Reserve Agent Hunke's letter of November 28, 1956, in reply to my letter of October 26, 1956, requesting certain information regarding each of the Representatives of the Federal Reserve Agent at the Federal Reserve Bank of New York designated pursuant to the Board's letter X-312 of August 9, 1917 (F.R.L.S. #5840).

From the information furnished and that obtained informally from Mr. Hunke, it is understood that the Agent's Representatives in the Security Custody Department who maintain joint custody (with representatives of the Federal Reserve Bank) of securities held in the System Open Market Account are not specifically designated or appointed in writing by the Agent or Assistant Agent, but that the Assistant Agent is informed by the Manager of the Security Custody Department as to the names of the four senior clerks who will be the representatives of the Federal Reserve Agent and of the four other persons who will be representatives of the Federal Reserve Bank. It is further understood that the current arrangement is being handled under an authorization made by former Federal Reserve Agent Ruml dated September 17, 1943.

In view of the large volume of government securities in the System Open Market Account held as collateral to Federal Reserve notes, the Board believes that it would be desirable to restrict the Agent's Representatives having joint custody of such securities to those persons who have been appointed Assistant Federal Reserve Agent or Alternate Assistant Federal Reserve Agent. Accordingly, if additional personnel are needed in order to conform to this arrangement, it will be appreciated if you will submit for the consideration of the Board the names of those additional persons you desire to have approved as Alternate Assistant Federal Reserve Agents.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.