

Minutes for March 25, 1957.

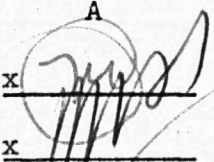
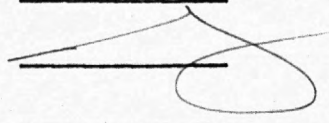
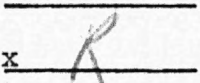
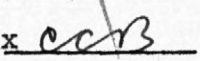
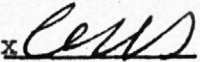
To: Members of the Board

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 _____	_____
<u>1</u> /Gov. Vardaman	_____	x _____
Gov. Mills	_____	
Gov. Robertson	x 	_____
Gov. Balderston	x 	_____
Gov. Shepardson	x 	_____

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 Monday, March 25, 1957. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Sloan, Director, Division of Examinations
Mr. Hackley, Associate General Counsel
Mr. Masters, Associate Director, Division of Examinations
Mr. Farrell, Assistant Director, Division of Bank Operations
Mr. Solomon, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of Examinations

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:

	<u>Item No.</u>
Letter to the Federal Reserve Bank of New York extending the time for The New York Trust Company, New York, New York, to establish a branch at 650 Madison Avenue.	1
Letter to The Chase Manhattan Bank, New York, New York, enclosing copies of reports of examination of foreign branches of the bank in the Caribbean area. (Copies of the examination reports sent also to the Federal Reserve Bank of New York and the Superintendent of Banks for the State of New York.)	2

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Item No.

- Letter to Bankers Company of New York, New York, New York, transmitting a report of examination of the company made as of December 31, 1956. (Copy of the examination report sent also to the Federal Reserve Bank of New York.) 3
- Letter to the Federal Reserve Bank of New York regarding the status of First Securities Corporation of Syracuse, Syracuse, New York, as a bank holding company. 4
- Letter to the Federal Reserve Bank of Atlanta extending the time for the proposed Northside Bank of Jacksonville, Jacksonville, Florida, to accomplish membership in the Federal Reserve System. 5
- Letter to the Federal Reserve Bank of Chicago regarding the request of Security National Bank, Sioux City, Iowa, that it again be classified as a reserve city bank. 6
- Letter to the Federal Reserve Bank of Chicago regarding the request of Merchants Trust Company, Muncie, Indiana, for a modification of its condition of membership number 5 so as to permit the bank to act as surety for individual fiduciaries. 7
- Letter to the Federal Reserve Bank of St. Louis regarding the status of W. R. Stephens Investment Company, Inc., Little Rock, Arkansas, as a bank holding company. 8
- Letter to the Federal Reserve Bank of Kansas City with respect to a question raised by Mutual Distributors, Inc., Kansas City, Missouri, concerning the applicability of Regulation T to the extending of credit on unlisted open-end investment company shares. (With a copy to the National Association of Securities Dealers, Inc.) (This letter was approved in a form which took into account certain changes suggested by Governor Balderston in the interest of clarification.) 9
- Letter to Southern Arizona Bank and Trust Company, Tucson, Arizona, approving the establishment of a branch at North First Avenue and Fort Lowell Road. (For transmittal through the Federal Reserve Bank of Dallas.) 10

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Item No.

Letter to the Comptroller of the Currency recommending approval of an application to organize a national bank in North Little Rock, Arkansas, provided arrangements are made for management satisfactory to the Comptroller. (With a copy to the Federal Reserve Bank of St. Louis.) 11

Letter to the Federal Deposit Insurance Corporation regarding the application of The Pleasant Hill Bank, Pleasant Hill, Missouri, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System. 12

Discount rates. Unanimous approval was given to telegrams 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	March 18
New York	March 21
Philadelphia	March 21
Chicago	March 21

Messrs. Sloan and Solomon then withdrew from the meeting.

Currency verification and destruction at Reserve Banks. At the joint meeting of the Board and the Presidents of the Federal Reserve Banks held on January 29, 1957, a report was made on the views of the Presidents' Conference concerning a possible request for a change in the existing procedure for the verification and destruction of United States paper currency at the Federal Reserve Banks. Since the report indicated lack of unanimity of opinion among the Presidents, the Board wrote to each President under date of February 12, 1957, requesting his individual views on whether it would be desirable to suggest to the Treasury that the existing

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procedure be changed. The replies, summarized in a memorandum from the Division of Bank Operations dated March 20, 1957, copies of which had been distributed to the members of the Board, revealed that eight of the Presidents felt that the Banks should not take the initiative in a request to the Treasury to be relieved of the function. While the operation was acknowledged to have difficulties and inherent dangers, it was believed, on the basis of experience with the operation, that it could be performed at the Reserve Banks with reasonable safety and at a saving to the Treasury Department. Therefore, the eight Presidents concluded that there was no impelling reason for a request to the Treasury at this time. Three of the Presidents, however, felt that the procedure should be changed, preferably by transfer of the operation to the Treasury. They stated that the present procedure contained risks greater than anticipated when the function was assumed, that the Reserve Bank verification procedure, conducted pursuant to Treasury regulations, was weaker than the one hundred per cent verification provided by the Treasury previously, and that the apparent savings were in part illusory. One President took no definite stand but recommended a cost study to determine the amount of actual savings to the Treasury. He indicated that if only nominal or moderate savings were disclosed, he would favor returning the operation to the Treasury.

There had also been sent to the members of the Board copies of a memorandum from the Division of Examinations dated March 20, 1957, reporting that at the Conference of General Auditors of the Federal

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Reserve Banks, held earlier this month, one of the subjects discussed was audit procedure in connection with the verification and destruction function. Attached to the memorandum was a copy of a letter sent by the Standing Committee of General Auditors to the Chairman of the Presidents' Conference at the conclusion of the meeting. This letter advised that a substantial majority of the General Auditors agreed with the statement that "time and experience have demonstrated that there are certain risks inherent in and peculiar to the present procedure that cannot reasonably be surmounted by any form of internal controls or audit processes". The memorandum stated that the Division of Examinations agreed with this statement and also with the unanimous view of the General Auditors that the savings resulting from decentralization of the operation were not of such magnitude as to offset the loss of protective features that exist under a system of centralized destruction.

At the request of the Board, Mr. Leonard reviewed the circumstances which gave rise to the request of the Treasury that the Reserve Banks undertake the verification and destruction function. He then referred to the inherent risks involved and cited three instances where the performance of these duties had resulted in situations that pointed up the possibility of defalcation or loss of currency. Turning to the cost aspects, he developed reasons for the view held by some of the Reserve Banks, and shared by the Divisions

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of Bank Operations and Examinations, that the savings to the Government as a whole, including the Federal Reserve Banks, might be quite small, even if only the direct expenses of the Reserve Banks were taken into account. This saving, he suggested, might be regarded as a fair insurance charge for the safeguards available through returning the currency to the Treasury for destruction. Further comments by Mr. Leonard related to the question whether economy of operations was emphasized unduly in the current thinking of the Treasury, with somewhat less emphasis on adequate safeguards. He felt, however, that the Board and the Reserve Banks would have an opportunity to discuss such matters with the Treasury at the appropriate level if circumstances warranted.

Mr. Farrell addressed himself principally to the question of costs, pointing out the difficulty in making comparative measurements because of the change to a five per cent verification of one dollar bills, pursuant to Treasury regulations issued when the function was transferred to the Reserve Banks. From available information, however, he estimated that the operation was somewhat more expensive at the Banks than it would be if conducted by the Treasury, assuming the existence of comparable procedures with regard to verification. One of the factors involved was the ability of the Treasury to conduct a volume operation, with enough backlog to keep its staff fully occupied on a continuing basis.

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In a discussion which followed, particular attention was given to a suggestion by President Bryan of the Federal Reserve Bank of Atlanta that, if the Treasury was not inclined to reassume the verification and destruction function, an alternative might be to establish two or three Reserve Bank offices to receive punched and cut halves, with the provision that none of these offices would perform its own destruction function. As envisaged by Mr. Bryan, this plan would include one hundred per cent verification. Obviously, it would also provide dual verification by parties having an "adverse interest" who would be at different locations. Comments made in this connection related to the cost as compared with verification and destruction by the Treasury and to the question whether such a procedure would eliminate substantially the risks inherent in the present procedure.

Following this discussion, Governor Robertson suggested that the staff be directed to discuss the whole problem of the verification and destruction of United States currency with the staff of the Treasury, calling attention to all of the information now available to the Board, including the views of the Reserve Bank Presidents and the Reserve Bank General Auditors, and setting forth the possibilities of collusion and the difficulties involved in establishing appropriate safeguards. Then, if the discussions resulted in the Treasury continuing to feel that the Reserve Banks should perform this work,

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he felt that the Federal Reserve should advise the Treasury that the work could only be done under a procedure considered satisfactory by the System from the standpoint of its own protection. Assuming this was agreed upon, arrangements could be worked out to set up procedures acceptable to the System, which might involve the establishment of safeguards such as suggested by President Bryan. While the costs of such an operation might approximate the costs under the previous procedure involving verification and destruction by the Treasury, some economies as compared with the present procedure might be achieved by reason of volume and, more important, better safeguards would be provided than are now possible.

It was also suggested that in any such conversations between the staffs of the Board and the Treasury question be raised whether, in view of the fact that the present verification and destruction procedure had now been in operation for several years, and since it was entered into on the basis of rough cost estimates, a comparative cost study at this time would not be desirable.

With respect to reimbursement for the cost of the operation, Governor Robertson expressed the view that, although full reimbursement should be requested as a basis for discussion with the Treasury, less emphasis should be given, in Federal Reserve consideration of the matter, to the question of full reimbursement than to the problem

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of working out procedures which would afford maximum protection against defalcation. While general agreement was expressed with this point of view, Governor Szymczak brought out that the question of reimbursement extends into other fiscal agency operations and introduces difficult problems of a policy nature, including the question of what fiscal agency activities should properly be assumed by the Federal Reserve Banks.

At the conclusion of the discussion, there was unanimous agreement that the staff of the Board should enter into discussions with the staff of the Treasury along the lines proposed by Governor Robertson.

Proposals for changes in the Retirement System of the Federal Reserve Banks. With reference to the discussion at the meeting on March 21, 1957, concerning proposed changes in the Bank Plan of the Retirement System and the manner in which the Board's study of the matter might be carried forward, Governor Balderston stated that President Johns, Chairman of the Special Joint Committee appointed to review the study of Industrial Relations Counselors Service, would be available to meet with the Board at 9:30 tomorrow morning, if the Board so desired, to consider matters of procedure relating to consideration of the Committee report.

It was agreed that the Board would meet with President Johns at the time mentioned by Governor Balderston.

The meeting then adjourned.

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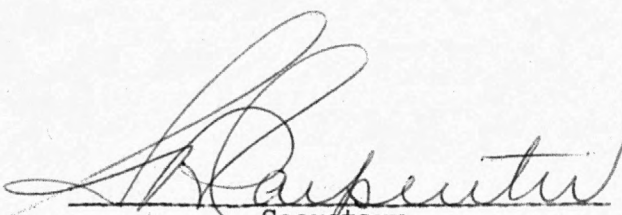
Secretary's Note: On March 22, 1957, Governor Shepardson approved on behalf of the Board memoranda from appropriate individuals concerned recommending the following actions with respect to the Board's staff:

Appointments, effective on the respective dates of assuming duties

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>
Mae Moen Gruel, Clerk	International Finance	\$3,175
Charlie H. Ward, Laborer	Administrative Services	2,745

Acceptance of resignation

John H. Stetson, Personnel Assistant, Division of Personnel Administration, effective April 5, 1957.


Secretary

Item No. 1
3/25/57

March 25, 1957

Mr. R. B. Wiltse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Wiltse:

Reference is made to your letter of March 13, 1957, transmitting the request of The New York Trust Company, New York, New York, for an extension of time within which to establish a branch at 650 Madison Avenue, New York, New York.

After considering the information which you have submitted, the Board concurs in your recommendation and extends to October 14, 1957, the time within which The New York Trust Company may establish the above-described branch, provided the approval of State authorities is effective as of the date the branch is established. Please advise the trust company accordingly.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 2
3/25/57

March 25, 1957

Mr. John J. McCloy, Chairman,
Board of Directors,
The Chase Manhattan Bank,
Eighteen Pine Street,
New York 18, New York.

Dear Mr. McCloy:

There are enclosed two copies each of the reports of examination of the foreign branches in the Caribbean area of The Chase Manhattan Bank, New York, New York, made as of the dates indicated below, by examiners for the Board of Governors of the Federal Reserve System:

<u>Branch</u>	<u>Date</u>
Panama, Republic of Panama	November 8, 1956
Colon, Republic of Panama	November 17, 1956
David, Republic of Panama	November 13, 1956
Balboa, Canal Zone	November 8, 1956
Cristobal, Canal Zone	November 16, 1956
San Juan, Puerto Rico	November 23, 1956
Santurce (San Juan), Puerto Rico	November 27, 1956
Rio Piedras (San Juan), Puerto Rico	November 30, 1956
Havana (Aguiar #310), Cuba	December 8, 1956
Havana (Amistad), Cuba	December 13, 1956
Havana (Vedado), Cuba	December 12, 1956
Marianao, Cuba	December 12, 1956

These examinations were made jointly and in cooperation with examiners for the Banking Department of the State of New York. The second copy of each of the reports is for the information and files of the officer in charge of the respective branch.

After the reports have been presented to your directors for their consideration, please advise the Board of Governors regarding the actions taken or contemplated with respect to the assets classified as Substandard and Loss in the reports of examination of the Panama (p. 14) and San Juan (p. 9) branches, and the suggestions of the examiner regarding certain of the large lines and other loans specially mentioned in the various reports. Any comments you may care to make with regard to the operations of your branches as disclosed by these reports will be appreciated.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary

Enclosures.

Item No. 3
3/25/57

March 25, 1957

REGISTERED MAIL

Mr. B. P. Leeb, President,
Bankers Company of New York,
16 Wall Street,
New York 15, New York.

Dear Sir:

There is enclosed a copy of the report of examination of Bankers Company of New York, New York, New York, made as of December 31, 1956, by an examiner for the Board of Governors of the Federal Reserve System. The figures for Bankers Trust and Executor Company Limited, shown in the report, were supplied by your Company.

Your courtesy in acknowledging receipt of the report will be appreciated.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Enclosure.

Item No. 4
3/25/57

March 25, 1957

Mr. R. B. Wiltse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Wiltse:

Reference is made to the registration statement, filed on November 29, 1956, by First Securities Corporation of Syracuse, pursuant to section 5(a) of the Bank Holding Company Act of 1956.

It is understood from the Corporation's registration statement that as of May 9, 1956, First Securities Corporation held 25 per cent or more of the voting shares of two banks, one of which was Cazenovia National Bank, Cazenovia, New York. As you know, effective February 25, 1957, Cazenovia National Bank merged with First Trust and Deposit Company, Syracuse, New York. It is assumed that First Securities Corporation not only does not now own 25 per cent or more of the voting shares of two or more banks, but that it does not directly or indirectly own, control, or hold with power to vote 25 per cent or more of the voting shares of any bank holding company or control in any manner the election of a majority of the directors of each of two or more banks, or that trustees do not hold for the benefit of the shareholders of the Corporation 25 per cent or more of the voting shares of each of two or more banks or a bank holding company, and that the Corporation has not become a successor to any company falling within the definitions set forth in section 2(a) of Regulation Y.

On the basis of this assumption and its understanding of the facts as stated above, the Board is of the opinion that First Securities Corporation of Syracuse has ceased to be a bank holding company within the meaning of the Bank Holding Company Act of 1956. Since the corporation is not now a bank holding company, it will not be necessary for it to file any annual report.

It should be mentioned, of course, that while 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.

Mr. R. B. Wiltse

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It will be appreciated if you will advise First Securities Corporation of the substance of this letter.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

Item No. 5
3/25/57

March 25, 1957

Mr. J. E. Denmark, Vice President,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Denmark:

In accordance with the recommendation contained in your letter of March 11, 1957, the Board of Governors extends to January 1, 1958, the time within which the proposed Northside Bank of Jacksonville, Jacksonville, Florida, may accomplish admission to membership. Please advise the applicant accordingly. It is understood that the delay in accomplishing admission arises in connection with the construction of a building to house the bank, but that every effort will be made to have the building completed and open for business not later than October 1, 1957.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 6
3/25/57

March 25, 1957

Mr. C. E. Allen, President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Allen:

This refers to your letter of March 7, transmitting the request of the Security National Bank, Sioux City, Iowa, that it again be classified as a reserve city bank, and that the same privilege be given to any other member bank in Sioux City that wishes to be a reserve city bank. Its request is occasioned by the termination on March 1, 1957 of the reserve city designation of Sioux City, because it did not meet the standards prescribed by the 1947 rule for designation of reserve cities and the second largest of the four member banks in the city did not request continuance of the reserve city designation.

It is noted that in support of its request the bank cites the nature of business and geographic location of Sioux City; that it helps outlying banks to carry loans exceeding their statutory limits, and wishes to do everything it can to help the surrounding agricultural area; that to do this it has to have as large deposits as possible, and its classification as a reserve city bank would help to acquire additional deposits both from correspondent banks and national corporations; and that it will be a loss to the general business of Sioux City and the surrounding agricultural area if the reserve city status of the bank is not restored.

The Board is fully appreciative of the desires of individual member banks for whatever reserve status they deem would best enable them to serve their communities and trade areas. There is no provision of law, however, under which the Board could classify individual banks for reserve purposes. The Board is empowered merely to classify a city as a central reserve city or a reserve city, or to terminate such classification. Whatever the classification, it has to apply to all member banks in the city, the only exception being that the Board of Governors may, upon affirmative vote of five members of the Board, permit a bank in an outlying district of a reserve city to maintain the reserve requirements applicable to "country" banks, and it may permit a member bank in an outlying district of a central reserve city to maintain the reserve requirements applicable to either reserve city banks or "country" banks.

Mr. C. E. Allen

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In connection with the reasons given by the subject bank in support of its request, it might be pointed out that member banks located in cities whose reserve city designations were terminated in earlier years, e.g., Lincoln, Nebraska, and St. Joseph, Missouri, appear to have lost no appreciable proportion of their deposits due to correspondent banks. This is indicated by the statistics contained in the table sent to you with the Board's letter of December 18, 1956.

The Board will appreciate it if you will advise the subject member bank to the above effect.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

Item No. 7
3/25/57

March 25, 1957

Mr. W. R. Diercks, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Diercks:

This refers to your letter of January 22, 1957, in which you recommend favorable consideration of the request of Merchants Trust Company, Muncie, Indiana, for a modification of its condition of membership number 5 so as to permit the bank to act as surety for an individual fiduciary when the bank has acquired control and custody of all assets of the trust estate.

It is the Board's policy not to permit a State member bank to act as surety because it may result in liability for acts of parties over whom the bank has no control. Although the bank is given custody and control of all assets of the estate, it is clearly indicated that the bank acquires no title thereto. If legal title were improperly transferred by the individual fiduciary to a bona fide purchaser, the bank would certainly be responsible to the beneficiaries of the trust. Therefore, it seems to the Board that the bank would be under a liability differing materially from that which it would assume if the bank were acting directly as fiduciary.

The State law authorizing the bank to "guarantee or become surety" in such cases must be based on the view that the bank assumes some type of liability by acting as surety; the guarantee or surety must have some purpose or it would not be required. Accordingly, it is the Board's opinion that the State member bank should not act as surety for individual fiduciaries and the required "bond or security" should be obtained from some other source. Please request the bank to arrange for the termination of any such suretyships and to refrain from acting in such capacity in the future.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 8
3/25/57

March 25, 1957

Mr. George E. Kroner, Vice President,
Federal Reserve Bank of St. Louis,
St. Louis 2, Missouri.

Dear Mr. Kroner:

This refers to your letter of January 25 enclosing a communication from W. R. Stephens Investment Company, Inc., a registered bank holding company, regarding its recent distribution to its stockholders of stock of three subsidiary banks.

It is the understanding of the Board that W. R. Stephens Investment Company, Inc., now owns in excess of 25 per cent of the voting shares of the Citizens Bank of Jonesboro, Arkansas, but does not directly or indirectly own, control, or hold with power to vote, 25 per cent or more of the voting shares of any other bank or of a bank holding company. It is also understood (1) that the Company does not control in any manner the election of a majority of the directors of any other bank, and (2) that trustees do not hold 25 per cent or more of the voting shares of any bank or bank holding company for the benefit of the stockholders of the Company.

On the basis of these assumed facts, the Board is of the opinion that W. R. Stephens Investment Company, Inc. has ceased to be a bank holding company within the meaning of the Bank Holding Company Act of 1956, and it will be appreciated if you will inform the Company to that effect. It should be mentioned, of course, that although administration of the Act is vested in the Board, its enforcement as a criminal statute falls within the jurisdiction of the Department of Justice, and conceivably the Board's interpretation might not be followed by that Department if it should have occasion to consider the matter.

The foregoing is intended to apprise the Company of the Board's views as to its present status under the Bank Holding Company Act. The Company's letter of January 18, 1957 indicated that it expected to receive a "certification that this Company is no longer subject to the Bank Holding Company Act of 1956." Presumably this refers to the "Final Certification" provisions of section 1101(e)(2)(A) of the Internal Revenue Code of 1954, which calls for a certification by the Board "that . . . the corporation has ceased to be a bank holding company."

Mr. George E. Kroner

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As indicated above, the Board is of the opinion, on the basis of assumed facts, that this Company has ceased to be a bank holding company. However, certification to that effect is a more difficult matter, since it may require actual determination of facts that may be assumed for purposes of an opinion. The procedure to be followed in connection with final certifications is now under consideration, the application by W. R. Stephens Investment Company, Inc. being the first of this type that has been received by the Board, and it is possible that final action on this matter may be delayed for some time. You are requested to inform the Company of this situation, and to explain also that delay in the issuance of a final certification does not adversely affect in any way either the Company's freedom of action or the rights of the Company or of its stockholders.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

Item No. 9
3/25/57

March 25, 1957

Mr. H. G. Leedy, President,
Federal Reserve Bank of Kansas City,
Kansas City 6, Missouri.

Dear Mr. Leedy:

This refers to the letter of March 7, 1957, from Mr. L. F. Mills, Chief Examiner of your Bank, which enclosed a letter of March 6, 1957, from Mr. E. J. Stoner, President of Mutual Distributors, Inc., (formerly Investors Fund, Incorporated), and presented a question under Regulation T.

Mr. Stoner's letter enclosed a copy of a notice which his firm received from the National Association of Securities Dealers, Inc., a national securities association registered with the Securities and Exchange Commission under section 15 A of the Securities Exchange Act of 1934. It is understood that Mr. Stoner's firm is a member of that Association.

The notice from the National Association of Securities Dealers, Inc., called attention to three things. (1) The first was section 11(d)(1) of the Securities Exchange Act of 1934 which forbids a broker or dealer to extend credit, or arrange for the extension of credit, with respect to any transaction in any security which was a part of a new issue in the distribution of which the broker or dealer participated within 30 days prior to such transaction. (2) The second was the fact that the granting or arranging of credit to purchase shares of open-end investment companies may result in excessive activity or churning of accounts, which raises questions under section 2 of Article III of the Association's Rules of Fair Practice. (3) The third was the prohibition in Regulation T against brokers or dealers extending credit on unregistered (i.e., unlisted) securities.

Mr. Stoner asks whether, in view of the notice of the National Association of Securities Dealers, Inc., his firm may extend credit on unlisted open-end investment company shares which his firm sells. He also asks whether he may extend such credit personally if his firm may not extend it, thus raising questions as to whether his firm may "arrange" such credit.

Section 11(d)(1) of the Securities Exchange Act is administered by the Securities and Exchange Commission, with the assistance of the National Association of Securities Dealers, Inc., and is not within the

Mr. H. G. Leedy

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jurisdiction of the Board. Accordingly, the Board is not in a position to express an opinion regarding the application of that provision. Similarly, the Board is not in a position to express an opinion as to the application of the Rules of Fair Practice of the National Association of Securities Dealers, Inc.

Under sections 3(c) and 7(a) of Regulation T, a person subject to the regulation may not extend any credit on unregistered (i.e., unlisted) securities for the purpose of purchasing or carrying securities, and may not arrange for any such credit to be extended by others. Under sections 4(f)(8) and 7(a) of Regulation T a person subject to the regulation may extend credit or arrange therefore even on unregistered securities for purposes "other than purchasing or carrying or trading in securities." Accordingly, in so far as Regulation T is concerned, the question whether a broker or dealer subject to the regulation may extend credit on unregistered securities, or arrange for such credit, would depend on whether the credit is for a purpose "other than purchasing or carrying or trading in securities."

This is necessarily a question of fact that would depend upon the circumstances of the particular situation, but on the basis of the information presented it would seem likely that the credit on unregistered securities here in question should be considered to be for the purpose of purchasing or carrying securities and therefore contrary to Regulation T.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

Item No. 10
3/25/57

March 25, 1957

Board of Directors,
Southern Arizona Bank and Trust Company,
Tucson, Arizona.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Dallas, the Board of Governors approves the establishment of a branch by Southern Arizona Bank and Trust Company, Tucson, Arizona, at the northeast corner of the intersection of North First Avenue and Ft. Lowell Road, one mile north of the corporate limits of Tucson, Arizona, provided the branch is established within one year from the date of this letter and that formal approval of the Arizona 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. 11
3/25/57

March 25, 1957

Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Attention: Mr. G. W. Garwood,
Deputy Comptroller of the Currency

Dear Mr. Comptroller:

Reference is made to a letter from your office dated December 18, 1956, enclosing photostatic copies of an application to organize a national bank in North Little Rock, Arkansas, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application made by an examiner for the Federal Reserve Bank of St. Louis indicates generally favorable findings with respect to the factors usually considered in connection with such proposals, except that the identity and qualifications of the proposed executive officers were not disclosed. The Board of Governors recommends approval of the application provided arrangements are made for management satisfactory to your office.

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.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 12

3/25/57

March 25, 1957

The Honorable H. E. Cook, Chairman,
Federal Deposit Insurance Corporation,
Washington 25, D. C.

Dear Mr. Cook:

Reference is made to your letter of March 5, 1957, concerning the application of The Pleasant Hill Bank, Pleasant Hill, Missouri, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

In connection with the report of examination of The Pleasant Hill Bank made as of March 26, 1956, the Federal Reserve Bank of Kansas City called attention, among other things, to the overloaned condition of the bank, suggesting that the management review this situation frequently for a policy change, particularly since the heavy loan volume had been continuous for quite some time. It also asked for assurance from the directors that the practice of paying dividends in kind would be discontinued. Although President Goeppert has defended the bank's policies with respect to both of these matters, they are called to your attention for consideration at the time conditions of admitting the bank to membership in your Corporation are formulated.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.