

Minutes for April 1, 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	<u>X</u> <i>MM</i>	_____
Gov. Szymczak	<u>X</u> <i>MS</i>	_____
<u>1</u> /Gov. Vardaman	_____	<u>X</u>
Gov. Mills	<u>X</u> _____	_____
Gov. Robertson	<u>X</u> <i>R</i>	_____
Gov. Balderston	<u>X</u> <i>CCB</i>	_____
Gov. Shepardson	<u>X</u> <i>SS</i>	_____

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, April 1, 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. Shepardson

Mr. Carpenter, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Leonard, Director, Division
 of Bank Operations
 Mr. Sloan, Director, Division of
 Examinations
 Mr. Marget, Director, Division of
 International Finance
 Mr. Hackley, General Counsel
 Mr. Goodman, Assistant Director,
 Division of Examinations
 Mr. Solomon, Assistant General
 Counsel
 Mr. Furth, Chief, International
 Financial Operations Section,
 Division of International
 Finance
 Mr. Katz, Chief, British Common-
 wealth, Scandinavia, and Near
 East Section, Division of Inter-
 national Finance

Application for permission to carry reduced reserves. (Item

No. 1) There had been circulated to the members of the Board a memorandum from the Division of Bank Operations dated March 20, 1957, recommending that Pacific State Bank, Hawthorne, California, which had been authorized to establish a branch within the corporate limits of Los Angeles, be permitted to continue to maintain the reserves required for banks located outside of central reserve and reserve cities.

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Pursuant to the recommendation contained in the memorandum, unanimous approval was given to a letter to the Federal Reserve Bank of San Francisco granting the requested permission. A copy of the letter is attached to these minutes as Item No. 1.

Proposed changes in check collection circulars. (Item No. 2)

There had been distributed to the members of the Board copies of a memorandum dated March 29, 1957, from Mr. Vest, then General Counsel, relating to certain changes in the uniform paragraphs of the Federal Reserve Bank check circulation circulars which had been recommended by the Subcommittee on Collections and the Subcommittee of Counsel on Collections, and had been approved by the Presidents' Conference at its meeting on March 26, 1957. These changes were designed to emphasize the fact that protest and wire advice of nonpayment should not be given with respect to items for the credit of the United States. Mr. Vest's memorandum stated that he and Mr. Leonard recommended concurrence by the Board in the proposed changes, which were of a routine nature and did not appear to be objectionable. In this connection, the memorandum brought out that while Board approval might not be required, strictly speaking, it had been the general practice in the past for the Board to concur in changes in the uniform provisions of the collection circulars. Attached to the memorandum was a copy of the joint report of the two Subcommittees of the Presidents' Conference which discussed the matter in more detail. In addition, there was submitted with the memorandum a draft of suggested telegram to the

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Presidents of all Federal Reserve Banks which would state that the Board concurred in the proposed changes.

In commenting on the matter, Mr. Hackley said that, as noted in Mr. Vest's memorandum, it had been understood that the Treasury Department intended to make a conforming change in its Circular No. 176 with reference to this general subject not later than Friday, March 29. It now developed, however, that the change would not be made until today because of an internal situation at the Treasury. Mr. Hackley suggested, therefore, that the proposed telegram to the Federal Reserve Banks not be sent until later today, when a sentence could be added to it advising that the conforming amendment to Treasury Circular No. 176 had been approved by the Treasury.

Agreement being expressed with Mr. Hackley's suggestion, unanimous approval was given to a telegram to the Presidents of all Federal Reserve Banks in the form of the telegram attached to these minutes as Item No. 2, with the understanding that the telegram would be sent when advice had been received that the order amending Circular No. 176 had been signed by the Treasury.

Secretary's Note: Such advice having been received, the telegram was sent later in the day.

Mr. Leonard then withdrew from the meeting.

Proposed reorganization of American Overseas Finance Corporation.

In a memorandum dated March 21, 1957, from the Legal, Examinations and

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International Finance Divisions, copies of which had been sent to the members of the Board, it was stated that the five banks which organized American Overseas Finance Corporation under the Edge Act had now decided to withdraw from ownership and sell their interests to a new group (not including any bank) which proposed to form a new corporation with capital and surplus of \$7 million. While there would be new directors, the president and other officers of American Overseas Finance Corporation would remain with the new corporation; and except for a change in capitalization, the new charter would be essentially the same as the present one. On the basis of information now available, including a memorandum submitted by counsel for American Overseas Finance Corporation, the staff memorandum recommended advising the president of the Corporation informally that, subject to further consideration after a review of all pertinent facts, among them details regarding the purchase price and method of acquisition, the Board would be disposed to look favorably upon the granting of a charter for the new corporation.

It was the unanimous view of the Board that there would be no objection in principle to the proposal outlined by American Overseas Finance Corporation. Governor Mills, who had opposed the adoption of the revised Regulation K, stated that he shared this view because the proposed reorganization would remove the Corporation from ownership by commercial banks, and as long as such a separation existed his objections to the provisions of the revised Regulation were less pertinent. While he saw a possibility of questions arising should the new corporation

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attempt to trade on its status as a Federally chartered and supervised organization in order to promote the sale of its securities, this appeared to be a matter for consideration in the future if and when necessary.

Governor Robertson, who also had opposed adoption of the revised Regulation K, indicated that he saw no objection to the proposed transfer of ownership to nonbanking interests, with the understanding that he would not want to pass at this time on any other implications of the proposal as they might relate to the provisions of Regulation K.

In further discussion, Governor Szymczak and members of the staff commented that, from conversations which they had had with representatives of American Overseas Finance Corporation, it appeared that questions might be raised at some time in the future regarding the applicability of Regulation K to certain types of transactions, with the possibility that the Board would be asked to consider changes in the Regulation. It was not understood, however, that such questions were being raised in connection with the current request for the Board's informal views regarding the proposed plan of reorganization. Along these lines, Mr. Goodman suggested that the current request might be regarded as in effect a desire to have the feeling of the Board with respect to the chartering and supervision of an Edge Act corporation owned by nonbanking interests.

At the conclusion of the discussion, it was agreed unanimously to advise American Overseas Finance Corporation informally that the

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Board would be favorably disposed in principle to the proposal which had been submitted, but at the same time to make it clear that this expression should not be interpreted to mean that the Board would be likely to go beyond the present provisions of Regulation K in dealing with questions such as had been raised informally by representatives of the Corporation.

Messrs. Goodman, Solomon, and Furth then withdrew from the meeting and Mr. Sprecher, Assistant Director, Division of Personnel Administration, entered the room.

Proposed foreign service. At the meeting of the Board on March 29, 1957, Governor Balderston raised for consideration certain questions relating to the possibility that Vice President Wheeler of the Federal Reserve Bank of San Francisco would be asked by the Government of the Sudan to serve in that country for three years as a financial adviser at the conclusion of the present mission to that country. Following a preliminary discussion at that meeting of factors involved in a decision by Mr. Wheeler whether to accept such an assignment, it was agreed to hold the matter over for further consideration when other members of the Board could be present.

At this meeting Mr. Sprecher restated the options that would be available in the case of Mr. Wheeler under the rules and regulations of the Retirement System of the Federal Reserve Banks and discussed the effect on Mr. Wheeler's retirement benefits should he elect to resign

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before reaching age 65 in order to accept an offer from the Sudanese Government.

Mr. Marget pointed out that it had been the policy in similar cases in the past to require a severance of connections with the Federal Reserve System if a person wished to enter the service of a foreign government or central bank. He felt that the reasons for such a policy were appreciated by Mr. Wheeler and that the latter's inquiries were for the purpose of weighing the advantages and disadvantages of any offer which might be tendered by the Sudanese Government.

Governor Mills called attention to Mr. Wheeler's long service with the Federal Reserve System and to the opportunity that he would have, should the Sudanese offer be made and accepted, to render distinguished service to a friendly foreign government. He suggested that the circumstances combined to elicit more sympathetic consideration than might otherwise be indicated. Therefore, if Mr. Wheeler should decide to accept such an offer and if it were possible, as Mr. Sprecher had stated, to act within the rules and regulations of the Retirement System to place Mr. Wheeler on a leave-without-pay status and thus improve his position from the standpoint of retirement benefits, he (Governor Mills) would see no fundamental objection to such an arrangement.

The other members of the Board favored adherence to the principle that a person entering the service of a foreign government or central bank should sever his active connection with the Federal Reserve System.

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Within this framework, however, they agreed that everything possible should be done to accommodate Mr. Wheeler under the rules and regulations of the Retirement System. The thought was expressed that the decision whether to accept an offer from the Sudanese Government should be left entirely to Mr. Wheeler and that no influence should be brought to bear one way or the other. In this connection, it was noted that the terms of the offer might be such as to compensate for a reduction of retirement benefits.

Governor Szymczak mentioned that circumstances in the Sudan might make it unnecessary for Mr. Wheeler to begin his service as financial adviser as early as now anticipated. If the date were deferred, his active service with the Federal Reserve System would extend closer to retirement age and the loss of retirement income would be reduced.

At the conclusion of the discussion, it was understood that the views of the Board would be communicated to Mr. Wheeler.

Messrs. Marget, Sprecher, and Katz then withdrew from the meeting.

Retention of auditing firm. Governor Robertson called attention to the question of arranging with a public accounting firm to accompany the Board's field examining staff on an examination of a Federal Reserve Bank during the current calendar year, in accordance with the customary practice, to observe examining procedures. As he understood the situation, the Board's decision to select another auditing firm pursuant to a policy of rotation would not take effect until next year, and he

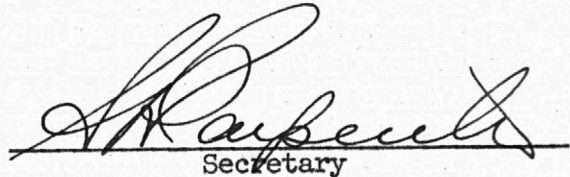
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therefore felt that it would be appropriate to enter into negotiations with Arthur Andersen & Co. to have its representatives again accompany the Board's field staff on an examination.

It was agreed unanimously that negotiations should be entered into with Arthur Andersen & Co. for this purpose.

The meeting then adjourned.


Secretary

Item No. 1
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April 1, 1957

Mr. E. R. Millard,
Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Millard:

The Board of Governors of the Federal Reserve System has considered the recommendation of your Bank contained in your letter of March 11, 1957, and, pursuant to the provisions of Section 19 of the Federal Reserve Act, grants permission to Pacific State Bank, Hawthorne, California, to continue to maintain the same reserves against deposits as are required to be maintained by banks located outside of central reserve and reserve cities upon opening of its branch in the City of Los Angeles.

Please advise the bank of the Board's action in this matter, calling attention to the fact that such permission is subject to revocation by the Board of Governors of the Federal Reserve System.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 2
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April 1, 1957

To the Presidents of all Federal Reserve Banks

The Board has today concurred in proposed changes in uniform provisions of operating letters and circulars of Federal Reserve Banks, as recommended in report dated March 15, 1957, of Subcommittee of Counsel on Collections and Subcommittee on Collections, which report was approved by Conference of Presidents on March 26, 1957. As indicated in the report the changes are as follows:

"Add a new subparagraph (5) under the heading 'Uniform instructions regarding protest and wire advice of nonpayment' in the Operating Circulars relating to the collection of cash items to read as follows: (5) DO NOT PROTEST AND DO NOT WIRE ADVICE of nonpayment of any check regardless of amount, endorsed by the Treasurer of the United States, or endorsed for credit to the Treasurer of the United States, or bearing on its face or in an endorsement the legend 'This check is in payment of an obligation to the United States and must be paid at par. N.P. Do not wire nonpayment' or words of similar import."

As suggested in Committee report, appropriate similar changes may be made in "Instructions to collecting and remitting banks."

Have been informed that conforming amendment to Treasury Circular No. 176 has been approved by Treasury today.

(Signed) S. R. Carpenter

Carpenter