

Minutes for September 12, 1957

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	<input checked="" type="checkbox"/> <u>MM</u>	_____
Gov. Szymczak	<input checked="" type="checkbox"/> <u>MS</u>	_____
Gov. Vardaman	<input checked="" type="checkbox"/> _____	_____
Gov. Mills	<input checked="" type="checkbox"/> _____	_____
Gov. Robertson	<input checked="" type="checkbox"/> <u>RC</u>	_____
Gov. Balderston	<input checked="" type="checkbox"/> <u>CCB</u>	_____
Gov. Shepardson	_____	<input checked="" type="checkbox"/> <u>SS</u>

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, September 12, 1957. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman  
 Mr. Balderston, Vice Chairman 1/  
 Mr. Szymczak  
 Mr. Vardaman  
 Mr. Mills  
 Mr. Robertson

Mr. Carpenter, Secretary  
 Mr. Sherman, Assistant Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Riefler, Assistant to the Chairman  
 Mr. Leonard, Director, Division of Bank Operations  
 Mr. Bethea, Director, Division of Administrative Services  
 Mr. Young, Director, Division of Research and Statistics  
 Mr. Johnson, Controller, and Director, Division of Personnel Administration  
 Mr. Hackley, General Counsel  
 Mr. Noyes, Adviser, Division of Research and Statistics  
 Mr. Sprecher, Assistant Director, Division of Personnel Administration  
 Mr. Hexter, Assistant General Counsel  
 Mr. Schwartz, Economist, Division of Research and Statistics

Electronic computer (Item No. 1). In a letter dated August 30, 1957, Mr. Andrew T. Fischer, Director of Marketing for Alvac Corporation, advised that delivery of the Alvac 800 Computer System ordered by the Board would be further delayed, possibly into 1959. As an interim measure, he suggested installation of an Alvac III-E on a rental basis,

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1/ Attended morning session only.

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with waiver by the Board of the penalty provisions in the existing contract. He also stated as soon as reevaluation of the Alvac 800 program had been completed, definite schedules would be presented to the Board.

The situation was discussed in memoranda from Mr. Young and from the Legal Division, dated September 10 and 11, 1957, respectively, of which copies had been distributed to the members of the Board. The memorandum from Mr. Young discussed possible procedural alternatives and concurred in the suggestion of the Legal Division that a letter be sent to Alvac Corporation which would in effect constitute an acknowledgment and preserve the Board's rights. This would permit further study of the matter in order to reach a decision as to what course of action would be most appropriate. The memorandum from the Legal Division discussed the possible alternative actions from a legal standpoint in the light of the terms of the contract and expenses already incurred by the Board in preparation for the installation of the computing system. It was recommended that the Board might treat the contract as being in full force and effect until October 30, 1957, at which time there would be an "actual" breach of contract because of Alvac's failure to make delivery on or before that date. The Board could then seek damages for breach of contract, enter into a modified arrangement with Alvac Corporation, enter into an arrangement with another manufacturer, or take no action whatever.

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Governor Mills said that, beyond the question of legal rights and whether the Board wished to assert those rights, it occurred to him that the project was in a sense one of an experimental nature, with the Board having a part in the development of a device tailored for its particular needs on almost a research basis. Therefore, it seemed to him that the Board might wish to consider the problems surrounding delivery of the computer in a somewhat different light from an exclusively commercial transaction. In these circumstances, he felt that the Board should exercise a degree of patience and not exact its full legal rights, even though it might be entitled to do so. He went on to note that in dealing leniently with Alvac Corporation the Board had expected to get a better machine than originally contemplated, but he now had some doubt about the company from its standpoint of its financing and management. It seemed possible that the Board might be dealing with a concern that had moved too high in the area of research and could not produce the equipment or service which might be expected from some larger manufacturer.

Governor Vardaman recalled having felt originally that the Board was entering into this project too soon and said he went along with the program on the basis that the special committee of the Board had gone into the matter thoroughly. At this point, he felt that the recommendation of the Legal Division might well be accepted. This



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would permit deferring a final decision until the end of October, and in the meantime it might be possible to obtain further information about the potentialities of the company, particularly its financial status and its ability to give the Board the benefit of further developments in the computer field. If the situation seemed doubtful, the Board could then consider cancelling the contract and dealing with a larger manufacturer, even at increased cost.

Governor Vardaman noted that the proposed reply to Alvac Corporation had been prepared for Mr. Bethea's signature, and Mr. Hexter commented on this point by saying that previous correspondence on the matter had been signed by Mr. Bethea in line with his procurement responsibilities. It was considered preferable to continue in this manner, he said, in order to avoid any complication due to a possible contention on the part of the Alvac Corporation that it did not know who was speaking for the Board.

At the request of the Board, Mr. Young then made a statement in which he said that the developments with respect to delivery of the computer were very disappointing to the staff; it had looked forward to obtaining the machine and beginning to handle some of its work in this way. At the same time, he did not believe that the picture was entirely black. The company was understood to have been reorganized, to have brought in leading trouble-shooters, and to have set up an improved operating organization. From an engineering standpoint, the company seemed to be quite satisfactory, and it had been appraised

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carefully by the Bureau of Standards in connection with a proposed purchase by that Bureau. Also, the company was obtaining new capital from its principal owner and there would be new funds to permit going ahead with development work. The Alvac III-E computer was now in production and organizations which had installed this machine were finding it quite satisfactory.

With regard to the charting machine ordered by the Board from the same concern, Mr. Young said that delivery likewise was being delayed. While the machine was actually in existence, its functioning did not yet meet the desired standards and consultants had been brought in for further study. It now appeared that progress was being made, but that it would be at least four months before the necessary corrections were accomplished.

Returning to the computer situation, Mr. Young appraised the various alternatives and said it was the feeling of the staff at the moment that probably the best procedure was to play along with the company, but to re-examine the whole matter intensively before making a final recommendation.

In response to questions by Governor Balderston, Mr. Young discussed the potential use of a computer installation in the near future and said that although it would be desirable to have the Alvac 800 available promptly, there were no urgent projects which could not be

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handled on a different basis. With regard to the prospective business loan survey, he said that collection and tabulation of the information would be done on mechanical tabulating equipment at the Federal Reserve Banks rather than attempting to do the work in Washington and that this would avoid some of the problems encountered in connection with the 1955 survey. He also commented that it had been found, in the case of all electronic computers, that approximately 12 months after delivery was required in order to "get the bugs out of the machine".

After Mr. Schwartz had reviewed possible advantages and disadvantages of accepting a III-E computer on a rental basis, Mr. Bethea pointed out the difficulty that would be involved in changing to a different coding system when the Alvac 800 machine eventually was delivered.

At the conclusion of the discussion, the proposed letter to Alvac Corporation was approved unanimously, with the understanding that further study would be given to alternative courses which the Board might follow. A copy of the letter is attached hereto as Item No. 1.

During the foregoing discussion Mr. Molony, Special Assistant to the Board, entered the room. At its conclusion Messrs. Hexter and Schwartz withdrew and Messrs. Solomon and Shay, Assistant General Counsel, joined the meeting.

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Board and Federal Reserve Bank budgets for 1958. There had been distributed to the members of the Board a draft of the instructions to be issued for preparing the 1958 budget of the Board.

At the request of the Board, Mr. Johnson discussed the differences from the procedures provided by the 1957 budget instructions. He also pointed out that each Division of the Board would deliver a copy of its tentative budget to Governor Shepardson on or before October 11, 1957. After review, the completed budget would be delivered to Governor Shepardson not later than the 8th of November.

Governor Mills inquired concerning the presentation in the budget of tentative expenditures on which a final decision had not been reached, and in response Mr. Johnson described how special projects would be segregated from the operating budget.

Governor Mills then referred to the need for careful preparation and consideration of the budget at a time when the Board had declared itself so firmly in favor of economy in Federal expenditures. He expressed the view that in order to afford the Board a complete picture, items should be included in the budget whenever there was any possibility that expense would be incurred during the budget year, rather than to have special projects presented to the Board during the course of the year.

Agreement was expressed with the views stated by Governor Mills and Mr. Johnson assured the Board that every effort would be made to



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have the budget take into account expenses that might be incurred during the year 1958.

Thereupon, the instructions for preparing the Board's budget for 1958 were approved unanimously.

There had also been distributed to the members of the Board copies of a memorandum from Mr. Leonard dated September 9, 1957, submitting an outline of the procedures recommended for analyzing and considering the budgets of the Federal Reserve Banks for 1958. The recommended procedures were unchanged from last year, except that the distribution of budget summaries to the Board was scheduled for the third week in November instead of the first week, because of the Board's action in extending the deadline for receipt of the budgets from October 1 to October 15.

Following a statement by Mr. Leonard, the recommended procedures were approved unanimously.

In this connection, Governor Balderston suggested the appointment of a committee of the Board to consider the proposed Bank budgets and salary recommendations for officers before these matters were submitted to the full Board. Agreement was expressed with this suggestion and it was understood that a committee of the Board would be appointed at an appropriate time.

Mr. Noyes then withdrew from the meeting.

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Retirement cases at Federal Reserve Banks. In a letter dated July 15, 1957, sent pursuant to the Board's request, each of the Federal Reserve Banks was asked to give the circumstances under which employees had retired since January 18, 1957, the date on which the Special Joint Committee submitted its report concerning proposed changes in the Bank Plan of the Retirement System of the Federal Reserve Banks. The responses were summarized in a memorandum from the Division of Personnel Administration dated August 28, 1957, which had been circulated to the members of the Board. It was recommended that the Board consider authorizing adjustment of the retirement allowances of all regular service retirees who had retired on or after April 1, 1957, in order to give such persons the benefit of the amendments to the Retirement System which became effective September 1, 1957. If, however, such adjustments were to be made through the Retirement System, it appeared that it would be necessary to amend the Rules and Regulations, and it was suggested that this might raise questions concerning the tax status of the Retirement System similar to those raised by the Internal Revenue Service several years ago.

The legal aspects of the matter were developed further in memoranda from Messrs. Solomon and Hackley, dated July 24 and August 26, 1957, respectively, particularly in the light of the requirement in the Internal Revenue Code which states that a pension fund, in order to be exempt from taxes on its income, must among other things not discriminate in favor of officers, shareholders, supervisors, or

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highly compensated employees. These memoranda also had been circulated to the members of the Board.

At the request of the Board, Mr. Sprecher summarized the information contained in the letters from the Federal Reserve Banks. In general, it was his conclusion that the Banks had acted in good faith in an effort to do the best possible job under circumstances where it was not known until recently what action would be taken with respect to revising the Retirement System benefits. He stated reasons for feeling that retroactive adjustments, if any, could well be restricted to regular service retirements and pointed out that if this course were followed only a relatively small number of cases would be involved. On the matter of a cut-off date, he said that if a recommendation must be made, the Division of Personnel Administration would be inclined to suggest April 1, 1957, because that was the date when arrangements became effective in the case of a high-level employee looking toward giving him the benefit of the amendments to the Retirement System.

There followed a discussion of the matter from the standpoint of (1) the most appropriate cut-off date for adjusting retirement allowances, if it should be decided in favor of such an arrangement, (2) the number of cases involved, and (3) the question whether any such adjustments should be made through the Retirement System or by payments outside of the Retirement System. During this discussion, question was raised whether the action by the Board effective April 1, 1957,

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in approving arrangements whereby a retiring Reserve Bank President might be eligible for adjusted retirement benefits under the Retirement System contemplated similar arrangements for other Reserve Bank employees scheduled to retire on and after that date. On this point, it was stated that according to the record the Board's action related only to the one particular case. Later, in approving requests for extension of the retirement dates of certain employees, the question had come up as to whether the same opportunity was being given to all employees, and the Board therefore had requested complete information from the Federal Reserve Banks. Accordingly, the problem of what course should be followed was before the Board for determination at this time.

Discussion then turned to the legal aspects of the situation and Mr. Hackley said that as a legal matter the Retirement System's tax-exempt status appeared to depend on lack of discrimination in favor of highly compensated employees. While he felt that no definitive answer could be given in the absence of discussion with the Internal Revenue Service, he considered it doubtful whether the Internal Revenue Service would hold that a failure to go back and make adjustments would jeopardize the Retirement System's tax status. As a policy matter, he felt that if any adjustments were made they should perhaps go back at least as far as April 1, 1957. However, in his opinion any charge of discrimination would be unjustified if the retirement occurred prior



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to a time when there was some reasonable certainty of changes in the Retirement System; as of April 1, 1957, there was some possibility of such changes, but they were not yet definite, and the first action that provided any degree of certainty was the approval given by the Board on June 28, 1957. Therefore, it would appear that the Retirement System's position would be safe from the standpoint of its tax status if adjustments went back only to that date. If there were any charges of discrimination, he felt that they would be likely only in the case of regular service retirements, and the case of the retiring Reserve Bank President which had been mentioned earlier was not a regular service retirement.

Mr. Solomon supplemented these comments by saying that the information which had been developed did not appear to reflect discrimination in favor of highly compensated employees and that there were only a relatively few cases about which there appeared to be any doubt. While one might speculate at some length on how to resolve all of those doubts, he pointed out that any decision might raise certain other difficulties. Among other things, it would not seem feasible to deal with the situation through the Retirement System itself except through an amendment to the Rules and Regulations. In all the circumstances, it seemed to him that the System was confronted with a rather difficult practical problem. From the available information, it appeared that the Federal Reserve Banks had done a reasonably good job of acting

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in good faith, and any further actions might only raise about as many problems as they would solve.

Mr. Hackley said that the Legal Division wished to emphasize the distinction between legal and moral aspects of the matter. From the standpoint of equity, he felt that much could be said for going back to April 1, 1957.

After further discussion, Governor Robertson said that, as he recalled the consideration given to the case of President Powell, it had been in the minds of the members of the Board that everyone in the System subject to the Bank Plan was entitled to be treated in exactly the same manner. He did not feel that the Board should be called upon to make a determination in each individual case as to whether there had been compliance with this precept, and in his opinion all the Board should do was to say that everyone was entitled to be treated equally. He would, therefore, ask the staff to consider whether there was any case that seemed questionable and, if so, to make a specific recommendation on which the Board could act. He said he was impressed by the statement of good faith on the part of the Reserve Banks and went on to say that he would favor asking the Reserve Bank Presidents to review the pertinent retirement cases. If it appeared that there had been compliance with the concept of equal treatment, he would be inclined to drop the matter at that point.

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After additional discussion of alternative possibilities and legal considerations bearing upon the possible courses of action, agreement was expressed by the members of the Board with the suggestion that the most appropriate date to consider in making any adjustments of retirement allowances that may be deemed necessary or appropriate would probably be April 1, 1957. The view was also expressed that all cases of regular service retirements effective on and after that date should be approached with a view to equality of treatment.

Accordingly, it was suggested that a letter to the Reserve Bank Presidents reflecting the views expressed at this meeting be drafted for the Board's consideration. This suggestion contemplated that the Board would consult with the Presidents at the next meeting of the Presidents' Conference in an effort to work out on a cooperative basis any aspects of the matter on which there may be questions.

In a further comment in explanation of his position, Governor Robertson said he did not agree that everyone who retired on and after April 1, 1957, should automatically be given additional retirement allowances, for this would represent in effect moving the effective date of the changes in Retirement System benefits back to that date. However, he felt that each case involving a retirement between April 1 and June 28, 1957, should be examined to be sure that the individual concerned was given options comparable to the arrangements made for Mr. Powell. He also felt that the final decision should be made by the Federal Reserve Bank concerned and that the Board should not reverse

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the decision of the Reserve Bank if it appeared to have been about right.

Ensuing discussion indicated it to be the view of the Board that any adjustments could be handled most feasibly through payments outside the Retirement System. Since the Board would have to approve any such payments, this was felt to make it all the more advisable that there be discussion with the Reserve Bank Presidents.

At the conclusion of the discussion, it was agreed that a letter to the Presidents along the lines suggested would be prepared for the Board's consideration.

During the foregoing discussion, Messrs. Riefler and Young withdrew from the meeting and at its conclusion Mr. Leonard also withdrew.

Mr. Kelleher, Assistant Director, Division of Administrative Services, joined the meeting at this point.

Eligibility of funds of Indian tribes as savings deposits (Item No. 2). At its meeting on May 15, 1957, the Board considered the question, presented by the Bureau of Indian Affairs, of the eligibility of an Indian tribe to have a savings deposit at a member bank. To clarify certain questions raised by the Board, the staff was requested to discuss the subject further with the Bureau of Indian Affairs and to check with the Federal Reserve Bank of San Francisco, which earlier had informed an interested member bank in that District



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that in its opinion Indian tribes were not eligible to have savings deposits. The results of the further staff inquiry were contained in a memorandum from Mr. Shay dated June 21, 1957, which, with its attachments, had been circulated to the members of the Board. With his memorandum, Mr. Shay submitted alternative drafts of a letter to the Bureau of Indian Affairs, one of which would continue to express the view that deposits of tribal funds by Indian tribes are not eligible for classification as savings deposits under the Board's Regulation Q. Representatives of the Federal Deposit Insurance Corporation had informally expressed agreement with this view from the standpoint of the Corporation's regulation. The other draft of reply would take the opposite position; that is, that Indian tribes are eligible under Regulation Q to have savings deposits in member banks. This position would be based on the philosophy that notwithstanding the formal aspects of their organization as governmental and business units, Indian tribes may be regarded as resembling in fundamental objective organizations of the kind specified in Regulation Q as being eligible to have savings deposits. Mr. Shay's memorandum, however, indicated the belief that such a position, if preferred by the Board, might more appropriately be the subject of amendment of the Regulation than an interpretation of the Regulation in its present form.

At the request of the Board, Mr. Shay reviewed the positions taken in the alternative drafts of letter, pointing out that the first alternative draft now contained language to the effect that the question

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would be kept in mind in any study looking toward possible revisions of Regulation Q. Such a staff study, he noted, was requested by the Board subsequent to previous discussion of the Indian tribe question and was now in progress. Mr. Shay stated that the Legal Division preferred the first alternative draft and that personally his preference for that draft was quite strong, since he felt that any different answer, if given, should be through amendment of Regulation Q.

With regard to the further inquiry which the Board had requested, Mr. Shay recalled that the principal questions were whether savings deposits would be of any great benefit to the Indian tribes and whether the matter had arisen primarily through the interest of commercial banks in obtaining these deposits. He said that he could not answer those questions specifically, but that in checking into the matter three converging desires became clear; namely, the desire of commercial banks, particularly a national bank in Arizona, for these deposits; the desire of the Bureau of Indian Affairs to make the Indian tribes less dependent on the Government so far as the commercial lives of the Indians are concerned; and the apparent interest of the Indian tribes, in acceding to the desire of the Bureau, to put themselves in the best possible position. It was interesting to note, he said, that the member bank principally concerned had now indicated to the San Francisco Bank in rather vague fashion that the matter was not quite as urgent as earlier and that the interest of the Indian tribes

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had abated somewhat, thereby giving the impression that the member bank would be satisfied to let the question lie dormant for the time being. However, the Bureau of Indian Affairs had taken the position that it would like to have the question considered on the basis on which it was originally presented.

In response to a question by Governor Robertson concerning the forms of investment available for tribal funds at the present time, Mr. Shay said that such funds can be divided into two general categories - current earnings of the tribes and tribal funds accumulated over the years. Funds in the second category are held by the Government and carry four per cent interest, but current earnings cannot be invested in this way except in certain rare instances. The current earnings therefore are usually held on deposit in commercial banks or other financial institutions, although in some instances local disbursing officers of the Bureau of Indian Affairs have authority to invest these funds in specified Government bonds. Most of the funds at commercial banks are in the form of demand deposits, Mr. Shay said, with a smaller amount in time deposits.

Governor Robertson then expressed the opinion that, although the approach taken in the second alternative draft of letter seemed at first to be quite plausible, the difficulties involved in making an exception in a case of this kind would be great. He suggested, therefore, that the Board go along with the letter recommended by the Legal Division.



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Agreement being expressed with the point of view stated by Governor Robertson, unanimous approval was given to the letter to the Bureau of Indian Affairs of which a copy is attached hereto as Item No. 2, with the understanding that the substance of the reply would be sent to the Federal Reserve Banks for their information.

Messrs. Sherman, Solomon, and Shay then withdrew from the meeting.

Operation of barber shop. The arrangement with Mr. Willis Boling under which he operated the barber shop in the Federal Reserve Building having been terminated through his letter of September 10, 1957, there had been distributed to the members of the Board prior to this meeting copies of a memorandum from Mr. Kelleher dated September 11, 1957, suggesting alternative methods for operating the shop in the future. It was recommended that the Board enter into a contract, if possible, with the management of a large existing barber shop to operate and manage the shop in the building, or, failing that, enter into a contract with an individual, the terms and conditions of the contract in either case to be in general the same as those assumed by Mr. Boling.

The matter was discussed and preference was expressed by members of the Board for an arrangement with the management of a large shop to also operate the shop in the building under contract with the Board. This preference having been expressed, the recommendation in Mr. Kelleher's memorandum was approved unanimously.



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The meeting then recessed and reconvened at 3:15 p.m. with the same attendance as at the conclusion of the morning session except that Governor Balderston and Messrs. Bethea and Kelleher were not present, while Messrs. Riefler and Solomon were present, along with Messrs. Masters, Director, Division of Examinations, Goodman, Assistant Director of that Division, and Furth, Chief, International Financial Operations Section, Division of International Finance.

Purchase of stock of Banca d'America e d'Italia by Bank of America, New York (Item No. 3). As previously discussed by the Board on several occasions, most recently on September 3, 1957, Bank of America, New York, New York, had requested the consent of the Board to the purchase of 11,674,456 shares of Banca d'America e d'Italia, Milan, Italy, representing all shares owned by Transamerica Corporation, San Francisco, California, for \$11 million plus a sum equal to 40 lire per share, prorated on an annual basis for the period from January 1, 1957, to the closing date and computed at a rate of 625 lire to the United States dollar, payable to the extent of the earnings of the Italian bank for such period, all in accordance with the provisions of an agreement of purchase and sale entered into between Bank of America and Transamerica Corporation under date of March 20, 1957. This agreement was to automatically terminate in 180 days (September 16, 1957), and it appeared that the total amount payable for the stock through September 30, 1957, would be approximately \$11,560,000.

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On September 3, 1957, the Board requested the Division of Examinations to obtain such additional information as appeared necessary for consideration of the proposed transaction, in order that final action might be taken. Accordingly, there had been distributed to the members of the Board before this meeting copies of a memorandum from Mr. Goodman dated September 11, 1957, discussing the proposed purchase in the light of all available information. As noted in the memorandum, the Department of State previously had indicated that it would have no objection to the purchase, and the Comptroller of the Currency, in a letter dated September 11, 1957, stated that he knew of no reason why the request should not be approved. The recommendation of the Federal Reserve Bank of New York was favorable and the recommendation of the Division of Examinations also was favorable, subject to several conditions proposed to be set forth in a letter to Bank of America, a draft of which was submitted with the memorandum.

One of the suggested conditions would provide that Bank of America would agree to maintain a net capital structure which, in the judgment of the Board of Governors, would be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities, after giving consideration to Bank of America, New York, and Banca d'America e d'Italia on a consolidated basis.

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In response to a question by Governor Mills on this point, Mr. Goodman set forth certain statistics from which he drew the conclusion that the capital position of Bank of America would be reasonably satisfactory. In reply to other questions by Governor Vardaman bearing upon the same point, he reiterated the opinion that the capital of Bank of America at the present time could be considered generally adequate when looked at in the light of the concept expressed in the condition contained in the proposed letter to Bank of America.

Governor Vardaman then touched on the question whether the Board would knowingly permit Bank of America to bleed its capital accounts and jeopardize its corporate soundness in order to protect the Italian institution, and Mr. Goodman replied in terms that this appeared to raise a very difficult question of policy. He expressed the view that if anything were to happen to the Italian bank, Bank of America could not let it fail, for it appeared that the offices of the Italian bank probably would be regarded publicly as being very much like branches of the American bank. When asked by Governor Vardaman for a further explanation of this reasoning in the light of the fact that Bank of America and Banca d'America e d'Italia are separate corporations, he said that if, for example, a condition of war should prevail and Italy should be taken over by a foreign power, there might be reason for standing on the corporate structure. If,

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however, difficulties were to arise in the normal course of operations, he felt that there would be at least a moral obligation on the part of the American bank to support the deposits of the Italian institution.

After further discussion, Governor Vardaman stated that these were just interesting questions that he had wished to raise and that he was prepared to vote in favor of permitting Bank of America to purchase the stock of the Italian bank owned by Trans-america Corporation.

Governor Robertson said that in his opinion the Board had in effect already passed on the proposed transaction in principle and that the main question before the Board at this time therefore was whether justification could be found for permitting Bank of America to invest in the stock of the Italian bank in an amount in excess of 15 per cent of its capital and surplus, the figure beyond which special approval is required by section 25(a) of the Federal Reserve Act. As he read the statute, the purpose of this provision was to prevent unnecessary hazards - not necessarily a geographical diversification of risks, because there could be a number of investments in one country - but through undue concentration in one enterprise. The Board, he noted, was authorized to permit a larger investment in any case if it saw fit. He went on to express the view that the files



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failed to show justification for going above the statutory limitation in this instance, but on the other hand he felt that there were reasons why the Board would be warranted in granting its permission. If one were to look at the whole picture, he said, one could not stand on legal technicalities, and in this case he considered it necessary to look at the whole organization. When that was done, the proposed investment was seen to be very small in relationship to the assets and capital funds of Bank of America's parent institution, Bank of America National Trust and Savings Association. In substance, he felt that the Italian bank might be regarded as a branch of the parent institution, the only distinction being that legally the transaction was being carried out through an intermediate corporation. Looking at the matter from this standpoint, he felt that the risks were not sufficiently great to prevent the Board from being justified in permitting an investment larger than 15 per cent of the capital and surplus of Bank of America, New York. In view of the limited amount of risk, the quality of the management of the parent institution, and the kind of management that it could be expected to put into any banking corporation which it owned or controlled, he would feel warranted in sanctioning an investment above the statutory maximum, recognizing that the proposed investment of approximately \$11.5 million would represent a figure considerably in excess of the 15 per cent of capital and surplus mentioned in section 25(a).

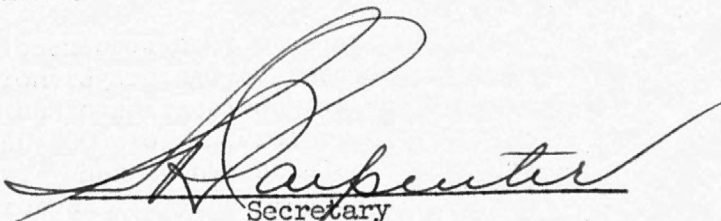
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After Governor Szymczak stated that he agreed with the point of view expressed by Governor Robertson, the Secretary reported that Governor Balderston, before leaving Washington earlier today, had advised that if he were present he would vote to approve the request of Bank of America.

Thereupon, the proposed letter to Bank of America, New York, of which a copy is attached hereto as Item No. 3, was approved unanimously, with the understanding that it would be transmitted through the Federal Reserve Bank of New York and that copies would be sent to the Federal Reserve Bank of San Francisco and the Comptroller of the Currency.

The meeting then adjourned.

  
Secretary

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 1  
9/12/57

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 12, 1957



Mr. Andrew T. Fischer,  
Director of Marketing,  
ALWAC Corporation,  
10 Columbus Circle,  
New York 19, New York.

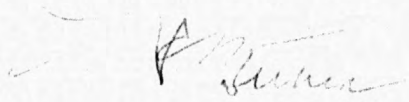
Dear Mr. Fischer:

This will acknowledge receipt of your letter of August 30, 1957, in which you state that delivery of the ALWAC 800 Computer System ordered by the Board will be delayed possibly into 1959. As an interim measure, you have submitted certain proposals relating to the installation and use of an ALWAC III-E.

Your letter has been brought to the attention of the Board. However, a decision regarding your proposals probably will not be made until the Board receives the "definite schedules" regarding the ALWAC 800 program, referred to in the last paragraph of your letter. When such schedules are received and a decision is made with respect to your proposals, you will be promptly advised.

In order to avoid any possible misunderstanding, the Board hereby informs you that it has not waived any of its rights under the existing contract with your company.

Very truly yours,

  
L. P. Bethea, Director,  
Division of Administrative Services.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 2  
9/12/57

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 12, 1957



Mr. Fred H. Massey,  
Assistant Commissioner,  
Bureau of Indian Affairs,  
United States Department of the Interior,  
Washington 25, D. C.

Dear Mr. Massey:

This is in further reference to your letter to Chairman Martin of April 12, 1957 (Ref: Budget and Finance--Finance), concerning whether an Indian tribe is eligible under section 1(e) of the Board's Regulation Q [12 CFR 217.1(e)] to maintain savings deposits in member banks of the Federal Reserve System.

Enclosed with your letter were copies of the constitutions and bylaws and corporate charters of the San Carlos Apache Tribe of the San Carlos Reservation, Arizona, and of the Yavapai-Apache Indian Community of the Camp Verde Reservation, Arizona, by which each of the two tribes was organized as provided by the Act of June 18, 1934 (48 Stat. 984). The purposes of this Act, among others, were to grant certain rights of home rule to Indians and to extend to them the right to form business and other organizations.

Under their constitutions and bylaws, it appears that each of the tribes is a self-governing organization, subject to certain limitations. Each constitution established a representative tribal governing body, known as a council, with broad powers, including among others the power to levy taxes; to appropriate tribal funds for public purposes; to promulgate ordinances establishing law enforcement agencies and regulating the conduct of members of the tribe, including domestic relations; to license or regulate activities on tribal lands by persons not members of the tribe; to prevent sales or encumbrances of tribal funds or assets; to regulate assignments of tribal land for public use; to charter subordinate organizations; and to manage all tribal economic affairs and enterprises in accordance with the terms of the tribe's corporate charter.

Under their corporate charters, the entire membership of each of the tribes is a body politic and corporate of the United States. The tribal councils established by the tribes' constitutions and bylaws



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are designated by the charters to exercise all of the broad charter powers, which include among others the power to borrow money and to acquire, operate, and dispose of property, subject to certain limitations; to make contracts, including contracts for the rendition of public services to the tribe; and to engage in any business that will further the economic well-being of the tribe. Without their consent, members of the tribe are not liable for corporate debts; and corporate earnings or profits may be used for the public purposes of the tribe, such as the construction of public works, expenses of the tribal government, the needs of charity, and the making of loans to members of the tribe.

In your letter, you stated that "An Indian tribe is primarily a political and governing body over its members. To engage in profit-making business enterprises for the economic well being of its members is just one of its many functions."

Under the definition in section 1(e) of the Board's Regulation Q, member banks may classify as a "savings deposit" only "funds (i) deposited to the credit of one or more individuals, or of a corporation, association or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes and not operated for profit, or (ii) in which the entire beneficial interest is held by one or more individuals or by such a corporation, association or other organization", if the deposit otherwise complies with the definition.

This part of the definition of "savings deposit" has been in the Board's regulation for over 20 years, and the Board uniformly has taken the position that deposits of States and municipalities are not eligible for classification as savings deposits. Enclosed are copies of interpretations of the Board published at 1936 Federal Reserve Bulletin 247 and at 1937 Federal Reserve Bulletin 1073, which are indicative of the Board's views concerning the application of the regulation. Funds of commercial corporations, of course, also are ineligible for classification as savings deposits under the regulation.

In view of the governmental character of the San Carlos Apache Tribe and of the Yavapai-Apache Indian Community and also their broad corporate authority to engage in business activities, the Board is of the opinion that such tribes, so far as deposits of tribal funds are concerned, are not organizations of the kind that may have "savings deposits" as defined in section 1(e) of Regulation Q, and that a deposit of tribal funds may not be regarded as one in which "the entire beneficial

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interest is held by one or more individuals" within the meaning of that section of the regulation. Accordingly, deposits of tribal funds of the San Carlos Apache Tribe or of the Yavapai-Apache Indian Community, and of any other tribe similarly organized, would not be eligible for classification by a member bank as "savings deposits" for the purposes of the Board's regulation.

On the other hand, there is nothing in the regulation which would prevent member banks from maintaining savings deposits for individual Indians, or for Indian organizations operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes and not operated for profit. In addition, funds held by an Indian tribe as trustee for the benefit of an individual Indian, or of certain individual Indians, or of a nonprofit Indian organization of the kind just described, would be eligible for classification as a "savings deposit" under the definition of that term in the regulation.

It should be pointed out also that funds of an Indian tribe deposited in a member bank would be eligible for classification as a "time deposit" on which interest could be paid by the bank in accordance with the regulation, if the deposit complied with sections 1(c) and 1(d) of the regulation relating to "time certificates of deposit" and "time deposits, open account", respectively.

A brief review of the background of the Board's definition of "savings deposits" may be of assistance. Savings deposits are an especially favored class of deposits having special privileges not granted to any other class of deposits. Thus, member banks are forbidden by law to pay interest on demand deposits and, except in certain limited circumstances, to pay time deposits before maturity; whereas such banks are permitted to pay interest on savings deposits and also to pay such deposits on demand, provided the right to require 30 days' advance written notice of withdrawal is reserved. In addition, member banks are permitted to carry with their Federal Reserve Banks much lower reserves against savings deposits than against any other deposits which are payable on demand. These privileges were granted to savings deposits because of the desire to encourage thrift, a purpose which the Board, on the basis of its experience, found necessary to protect from abuse by making eligibility for maintenance of a savings deposit dependent upon the nature of the depositor.

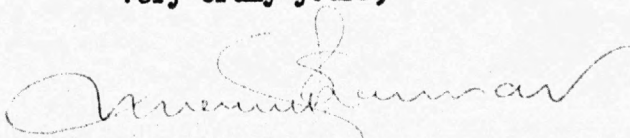
As you know, the subject of your letter has been discussed on two occasions by representatives of the Board and your Bureau. The matter

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has been carefully considered by the Board, which is not unmindful of the special problems that exist with respect to Indian tribes. The situation presented by you will be borne in mind in connection with any review or revision of the regulation which may be undertaken.

Very truly yours,



Merritt Sherman,  
Assistant Secretary.

Enclosures 2



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 3  
9/12/57

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 12, 1957



Mr. Russell G. Smith,  
Executive Vice President,  
Bank of America,  
40 Wall Street,  
New York, New York.

Dear Mr. Smith:

In accordance with the request contained in your letter of August 21, 1957, transmitted through the Federal Reserve Bank of New York, as supplemented by your letter of September 4, 1957, the Board of Governors grants its consent to your bank to purchase 11,674,456 shares of Banca d'America e d'Italia, Milan, Italy, representing all such shares owned by Transamerica Corporation for \$11,000,000, plus a sum equal to 40 Lire per share, prorated on an annual basis for the period from January 1, 1957, to the closing date and computed at a rate of 625 Lire to the United States Dollar, payable to the extent of the earnings of Banca d'America e d'Italia for such period, in accordance with the provisions of the Agreement of Purchase and Sale entered into between Bank of America and Transamerica Corporation under date of March 20, 1957.

The Board's approval of the proposed purchase is given subject to the following conditions:

- 1) That as long as Bank of America, New York, maintains a financial interest in Banca d'America e d'Italia, it will maintain a controlling interest of substantially all of the outstanding stock of Banca d'America e d'Italia;
- 2) That Bank of America, New York, shall not purchase or hold any stock in Banca d'America e d'Italia if Banca d'America e d'Italia at any time fails to restrict its activities to those permissible to a corporation in which Bank of America, New York, with the consent of the Board of Governors, may purchase and hold stock under Section 25(a) of the Federal Reserve Act or the regulations thereunder, or if Banca d'America e d'Italia, except with the consent of the Board of Governors, transacts or engages in any business in the United States, establishes any branch or agency,



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- or takes any action or undertakes any operation in Italy or elsewhere which at that time is not permissible to Bank of America, New York;
- 3) That when required by the Board of Governors, Bank of America, New York, will cause Banca d'America e d'Italia to permit examiners appointed by the Board of Governors to examine Banca d'America e d'Italia and its branches and agencies, and to furnish the Board of Governors with such reports as it may request from time to time;
  - 4) That Bank of America, New York, agree to maintain a net capital structure which, in the judgment of the Board of Governors of the Federal Reserve System, shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities, after giving consideration to Bank of America, New York, and Banca d'America e d'Italia on a consolidated basis;
  - 5) That within 90 days after consummation of the proposed acquisition of Banca d'America e d'Italia, steps will be taken to increase the capital of Bank of America, New York, by an amount not less than the cost of the shares of Banca d'America e d'Italia acquired.
  - 6) That Bank of America will be expected to dispose of the stock of Banca d'America e d'Italia as promptly as practicable in the event that operations of Banca d'America e d'Italia should at any time be inconsistent with the provisions of Section 25(a) of the Federal Reserve Act or regulations thereunder or the terms of this letter.

Upon the completion of the proposed transaction, it is requested that the Board be furnished (1) a copy of the charter or articles of association or other authorizing instrument and by-laws, and (2) a report of condition of Banca d'America e d'Italia as of September 30, 1957, on Form F. R. 314 for the Head Office (submitting Part A, but excluding sections inapplicable to a foreign country) and each branch, agency, and office individually (submitting Part B), together with a consolidated statement of the bank.

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In granting consent to your bank to purchase the shares of Banca d'America e d'Italia, the Board desires to reiterate that it will insist on compliance with the provisions of Regulation K as indicated in the Board's letter of September 4, 1957, to Chairman Tapp.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Assistant Secretary.