

Minutes for December 11, 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> </u>	x <u> </u>
Gov. Szymczak	x <u> </u>	<u> </u>
Gov. Vardaman	x <u> </u>	<u> </u>
Gov. Mills	x <u> </u>	<u> </u>
Gov. Robertson	x <u> </u>	<u> </u>
Gov. Balderston	x <u> </u>	<u> </u>
Gov. Shepardson	x <u> </u>	<u> </u>

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, December 11, 1957. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Hackley, General Counsel
 Mr. Hostrup, Assistant Director,
 Division of Examinations
 Mr. Thompson, Supervisory Review Examiner,
 Division of Examinations

Appointment of director at Philadelphia. Governor Balderston reported that in accordance with the understanding at the meeting on December 9, 1957, he had talked with Mr. Supplee, incoming Chairman of the Federal Reserve Bank of Philadelphia, about the proposed appointment of Mr. Clifford J. Backstrand, President of the Armstrong Cork Company, Lancaster, Pennsylvania, as a Class C director of the Federal Reserve Bank of Philadelphia for the three-year term beginning January 1, 1958, and that the proposed appointment was agreeable to Mr. Supplee as well as to Mr. Meinel, the retiring Chairman of the Reserve Bank. Governor Balderston also said that the name of Mr. Robert E. MacNeil, President of the Curtis Publishing Company, had been suggested in the event that Mr. Backstrand was not available.

Invitation extended to Mr. Thomas. Governor Balderston referred to a memorandum which Mr. Thomas, Economic Adviser to the Board,

1/ Withdrew from meeting at point indicated in minutes.

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had addressed to Chairman Martin under date of December 6, 1957, in which Mr. Thomas stated that he had been asked by President Irons of the Federal Reserve Bank of Dallas to attend the joint meeting of the directors of that Bank and its branches to be held at El Paso, Texas, on January 9, 1958, on the occasion of the opening of the new El Paso Branch building. Mr. Thomas also stated in the memorandum that he had been asked to give a discussion of the current economic situation at the meeting in El Paso and indicated that, if authorized to make the trip, he probably would leave Washington after the meeting of the Federal Open Market Committee on January 7 and be away through January 10.

Mr. Thomas was authorized to accept the invitation.

Request of Transamerica Corporation for tax certification.

(Items 1, 2, and 3). There had been sent to the members of the Board copies of a memorandum from the Division of Examinations dated December 9, 1957, regarding the application of Transamerica Corporation, San Francisco, California, for a prior tax certification pursuant to the Internal Revenue Code of 1954. After describing the proposed plan of reorganization pursuant to which Transamerica would cease to be a bank holding company within the meaning of the Bank Holding Company Act of 1956, the memorandum recommended that the requested certification be issued.

There had also been sent to the members of the Board copies of a memorandum from Mr. Hexter, Assistant General Counsel, dated

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December 9, 1957, which indicated that before proceeding with its plan of organization Transamerica wished to obtain from the Internal Revenue Service a ruling that its shareholders would not be subject to additional income taxation as a result of the reorganization. In order to obtain such a ruling, it appeared that it would be necessary for the Internal Revenue Service to have received not only the Board's prior certification but also the contemplated form of the Board's final certification, which could be actually issued only after the reorganization had taken place. In the memorandum, Mr. Hexter expressed concurrence with the view stated in a memorandum of November 9, 1956, from the Division of Examinations that the Board, on the basis of its own examination and investigation, would in no case be in a position to certify without qualification that a particular corporation "had ceased to be a bank holding company." However, he believed that the tax provisions of the Bank Holding Company Act might be interpreted as authorizing the Board to issue a final certification in this case on the basis of appropriate written statements of fact by Transamerica and its subsidiary corporations. Accordingly, there was attached to the memorandum a draft of letter to the Commissioner of Internal Revenue which would enclose the Board's prior certification and a draft of a form of final certification intended for issuance after reorganization had been completed. It was understood that if the Internal Revenue Service was satisfied that the reorganization would qualify for the tax

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relief provided in the Act, it would give Transamerica a favorable ruling on the basis of which Transamerica would proceed to carry out the reorganization. If the Service should conclude that the Board's certifications would not meet the requirements of the applicable provisions of the Internal Revenue Code, presumably it would inform the Board of its views and the Board would then determine what action was appropriate in the circumstances.

At the request of the Board, Mr. Hostrup commented on the various steps contemplated by Transamerica in carrying out its plan of reorganization. He then discussed the need for a prior tax certification, the reasons for also furnishing the Internal Revenue Service a draft of the proposed final certification, and the reasons why it was felt that the Board would not be in a position to make an unqualified final certification. On the last point, he said that the System could not possibly examine all of the various pertinent records and transactions sufficiently to make an unqualified certification that Transamerica was no longer a bank holding company. He felt, however, that the Board could reasonably rely on the written statements of officers of Transamerica and its subsidiaries which for many years had been the basis of assessment of income taxes.

Mr. Hackley emphasized that the law does not require the Board to approve the plan of reorganization, but only to make certain certifications of a financial nature. He then reviewed the proposed prior

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certification and stated that he saw no legal complications in the statements made therein. Concerning the proposed final certification, he said that it seemed desirable to submit a draft to the Internal Revenue Service at this time in order to be sure that the Service would be satisfied with a certification based partly on the Board's direct knowledge and partly on the written statements of the bank holding company and its subsidiaries. He went on to confirm the view expressed by Mr. Hostrup that it would not seem feasible for the Board to make an unqualified final certification and said that he did not believe it was contemplated by the Congress that the Board would make an unqualified certification in such circumstances. Rather, it seemed that the proper approach would be for the Board to be able to rely on statements by the bank holding company.

Governor Robertson stated that he thought the staff had done a good job in coming to a practical solution of a very difficult problem.

In a discussion which ensued concerning various aspects of the matter, particularly the form of the final tax certification, Governor Vardaman inquired whether the Board had in any sense a continuing responsibility to see that Transamerica did not again become a bank holding company from the tax point of view.

Governor Robertson responded that any such responsibility would rest with the Internal Revenue Service. He pointed out, however, that if Transamerica were again to become a bank holding company without

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the Board's approval, it would be liable under the Bank Holding Company Act, which is a criminal statute.

In further discussion, during the course of which Governor Robertson withdrew from the meeting to keep another appointment, various questions were raised concerning the basis of certifying which should be set forth in the Board's final certification. Governor Vardaman called attention especially to the reference in the draft to facts ascertained from available sources of information, other than the written statements submitted by officers of Transamerica and its subsidiaries, and raised the question whether it was advisable to refer to such other sources or simply to state that the certification was made on the basis of information provided by Transamerica and its subsidiaries.

In this connection, Mr. Hostrup mentioned the extent of examination of the records of Transamerica which could reasonably be made by the Federal Reserve Bank of San Francisco and discussed the limitations that would be involved in this respect.

Governor Vardaman explained his views further by saying that this was the first instance of a final certification being considered by the Board and that other bank holding companies might be expected to seek determinations phrased in a similar manner. In circumstances which precluded complete direct examination and ascertainment, it appeared to him that it would be preferable to indicate in the certification that it had been issued on a basis which would place responsibility on the

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bank holding company rather than on the Board if questions of fact should be raised at a later date.

After a full discussion on this point, it was suggested that the first paragraph of the draft of final certification, which would indicate the basis on which the document had been issued, be stricken, with the result that the certification would then constitute a simple statement certifying, without specifying the basis, that to the best of the Board's knowledge and belief Transamerica had ceased to be a bank holding company. Mr. Hackley pointed out that such a certification might or might not be acceptable to the Internal Revenue Service, and it was suggested that the reasons for the form of the proposed final certification be discussed orally with the Service by the members of the Board's staff. If it should be found that a certification in such form would not be acceptable, the matter would then have to come back to the Board for further consideration.

The text of the proposed certification in the revised form was then read and by unanimous vote was given tentative approval. The prior certification was approved in the form in which it had been submitted with Mr. Hexter's memorandum and it was understood that the proposed letter to the Commissioner of Internal Revenue would be sent in a form which would be modified slightly in the light of the decision reached at this meeting concerning the form of the draft of final certification. It was also understood that a duplicate original of the prior certification would be sent to Transamerica Corporation.

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The letter sent to the Commissioner of Internal Revenue, the prior certification, and the draft of final certification were in the form attached hereto as Items 1, 2, and 3, respectively.

The members of the staff then withdrew and the Board went into executive session.

Health insurance program. Governor Shepardson later informed the Secretary that during the executive session he reported to the Board that the Office of the Controller had raised a question whether the payments which the Board had approved to be made on behalf of its employees for group hospitalization and major medical insurance should be extended to the members of the Board. He said that this point was discussed and that it was agreed, for the same reasons which led the Board to the decision that the members of the Board should not be included in the group life insurance program provided by the Connecticut General Life Insurance Company, that the payments for group hospitalization and major medical insurance should not be extended to include the members of the Board.

Outside activities of the Board's staff. Governor Shepardson also informed the Secretary that there had been discussion during the executive session of questions raised in an earlier informal discussion of outside business and teaching activities of members of the Board's staff, as reported in a memorandum from the Division of Personnel Administration dated October 23, 1957. He said that at this meeting of the Board it was agreed unanimously that no objection should be

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raised with regard to the outside activities listed in the memorandum, but that the Division of Personnel Administration should be requested to amend the form of report made annually by employees concerning outside business activities to call for the listing of all such activities whether or not they involve compensation and regardless of whether the activity has previously been approved by the Board.

The meeting then adjourned.

Secretary's Notes: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board increases in the basic annual salaries of the following persons on the Board's staff, as indicated:

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>		
		<u>From</u>	<u>To</u>	
Effective December 15, 1957:				
<u>Research and Statistics</u>				
Philip T. Allen, Economist		\$ 8,990	\$ 9,205	
Reba C. Driver, Statistical Clerk		4,075	4,210	
Jennie L. Glass, Statistical Assistant		4,075	4,210	
Robert Solomon, Economist		10,320	10,535	
Elizabeth Ann Pike Ulrey, Economist		6,605	6,820	
<u>Bank Operations</u>				
Mary Malinchock, Statistical Clerk		3,670	3,805	
<u>Examinations</u>				
Att W. Hammons, Jr., Assistant Federal Reserve Examiner		5,440	5,575	
Adrien P. Francoeur, Assistant Federal Reserve Examiner		5,440	5,575	

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Salary increases (continued)Name and titleDivisionBasic annual salaryFromTo

Effective December 15, 1957: (continued)

Administrative Services

Aaron Dortch, Messenger

\$3,115

\$3,200 1/

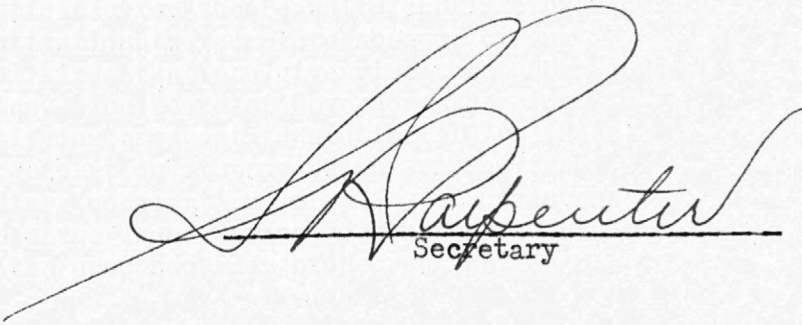
Effective December 29, 1957:

ExaminationsLawrence W. Waller, Jr., Assistant
Federal Reserve Examiner

4,215

4,525

Governor Shepardson also approved on behalf of the Board today a letter to the Chairman of the Committee on Miscellaneous Operations, Conference of Presidents of the Federal Reserve Banks, advising of the designation of Mr. Kelleher to succeed Mr. Bethea as Associate Member of the Subcommittee on Cash, Leased Wire, and Sundry Operations in matters pertaining to the Federal Reserve Leased Wire System. A copy of the letter is attached hereto as Item No. 4.



Secretary
1/ Effective November 17, 1957.

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

Item No. 1
12/11/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 11, 1957



Commissioner of Internal Revenue,
Washington 25, D. C.

Dear Sir:

Enclosed is a Certification by the Board of Governors, pursuant to section 1101(c)(3) and section 1103(b) of the Internal Revenue Code, with respect to a proposed exchange and distribution by Transamerica Corporation, San Francisco, California, which is a "bank holding company" as defined in section 2(a) of the Bank Holding Company Act of 1956. A duplicate original of the Certification is being sent to Transamerica Corporation.

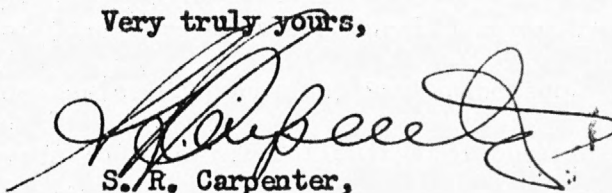
Also enclosed is a draft of a Final Certification which the Board of Governors intends to issue, pursuant to section 1101(e)(2) of the Internal Revenue Code, after Transamerica Corporation shall have made the exchange and distribution pursuant to the Plan of Reorganization referred to in the enclosed Certification, if the Board is satisfied at that time that Transamerica "has ceased to be a bank holding company". This draft is submitted for your consideration in connection with Transamerica's pending request for a tax ruling covering these transactions.

With respect to the draft of a Final Certification, attention is directed to the fact that the definition of "bank holding company" in section 2(a) of the Bank Holding Company Act of 1956 is such as to render it impracticable for the Board to confirm through direct examination or investigation the complete absence of any relationships of the several kinds that can give rise thereunder to "bank holding company" status. The Board of Governors therefore intends, for purposes of certifying pursuant to section 1101(e)(2)(A) of the Code, to rely in large part on statements in writing from Transamerica and its subsidiary corporations negating the existence of circumstances that would cause Transamerica to continue to be a bank holding company after the proposed Plan of Reorganization has been carried out.

Commissioner of Internal Revenue -2-

The foregoing explanation of the Board's proposed procedure with respect to Final Certification in this case is presented in order to assist the Internal Revenue Service to pass upon Transamerica Corporation's pending request for a ruling by the Service regarding the Federal tax consequences of the proposed Plan of Reorganization.

Very truly yours,



S. R. Carpenter,
Secretary.

Enclosures

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 2
12/11/57

C E R T I F I C A T I O N

1. The Board of Governors of the Federal Reserve System has been informed by Transamerica Corporation, San Francisco, California, that it proposes to take the following actions after the close of business on June 30, 1958:

(a) to exchange

(i) \$20,000,000 in cash and

(ii) all of Transamerica's directly-owned shares

in its majority-owned banks

for all of the stock of Firstamerica Corporation, a corporation organized under Delaware law for the purpose of receiving such property; on September 20, 1957, the numbers of shares of said banks directly owned by Transamerica were as follows:

<u>Bank</u>	<u>Number of Shares</u>
First Western Bank and Trust Company, San Francisco, California	1,622,431
The First National Bank of Portland, Portland, Oregon	941,044
Walker Bank & Trust Company, Salt Lake City, Utah	171,557
National Bank of Washington, Tacoma, Washington	200,824

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<u>Bank</u>	<u>Number of Shares</u>
Bank of Idaho, Boise, Idaho	133,430
First National Bank of Nevada, Reno, Nevada	480,719
Bank of Nevada, Las Vegas, Nevada	6,593
First National Bank of Arizona, Phoenix, Arizona	537,540
Southern Arizona Bank and Trust Company, Tucson, Arizona	231,325
The American National Bank of Denver, Denver, Colorado	18,988
Englewood State Bank, Englewood, Colorado	21,650
The First National Bank in Fort Collins, Fort Collins, Colorado	2,252
Bank of New Mexico, Albuquerque, New Mexico	41,165
First State Bank at Gallup, Gallup, New Mexico	1,373
Lea County State Bank, Hobbs, New Mexico	12,744
Roswell State Bank, Roswell, New Mexico	9,630
Santa Fe National Bank, Santa Fe, New Mexico	12,258
Bank of Glacier County, Cut Bank, Montana	1,305
The Conrad National Bank of Kalispell, Kalispell, Montana	35,725
Montana Bank, Great Falls, Montana	3,639

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<u>Bank</u>	<u>Number of Shares</u>
First National Bank of Casper, Casper, Wyoming	32,483
The First National Bank of Laramie, Laramie, Wyoming	930
The First National Bank of Riverton, Riverton, Wyoming	5,050;

- (b) immediately after the exchange described in (a), to distribute (in accordance with section 1101(b)(2)(A)(i) of the Internal Revenue Code of 1954) all of the stock of Firstamerica to the stockholders of Transamerica, pro rata, without the surrender by such stockholders of any stock of Transamerica.

Transamerica has also informed the Board of Governors regarding other aspects (including the composition of the proposed management of Firstamerica) of the "Plan of Reorganization" adopted at a meeting of the Board of Directors of Transamerica on September 19, 1957, of which said exchange and distribution form a part.

2. Pursuant to the provisions of section 1101(c)(3) and section 1103(b) of the Internal Revenue Code of 1954, the Board of Governors of the Federal Reserve System hereby certifies that:

- (a) Transamerica Corporation satisfies the requirements of subsection (b) of section 1103 of the Internal Revenue Code of 1954 and therefore is a "qualified bank holding corporation" as defined in that subsection.

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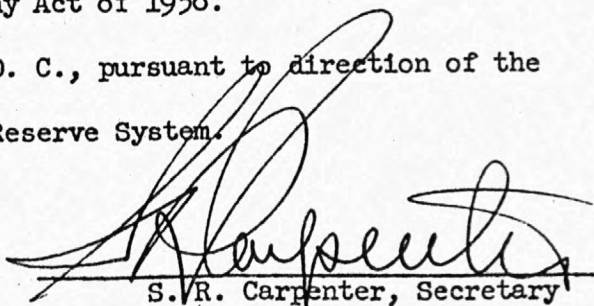
- (b) The following property, constituting part of the property itemized in "1" above, is all or part of the property by reason of which Transamerica Corporation controls (within the meaning of section 2(a) of the Bank Holding Company Act of 1956) the following-named banks:

<u>Bank</u>	<u>Number of Shares</u>
First Western Bank and Trust Company, San Francisco, California	1,531,464
The First National Bank of Portland, Portland, Oregon	940,964
First National Bank of Nevada, Reno, Nevada	479,271
Bank of Nevada, Las Vegas, Nevada	6,360
National Bank of Washington, Tacoma, Washington	179,466
First National Bank of Arizona, Phoenix, Arizona	386,788.

- (c) The proposed exchange and distribution, referred to in "1" above, are appropriate to effectuate the policies of the Bank Holding Company Act of 1956.

Executed in Washington, D. C., pursuant to direction of the Board of Governors of the Federal Reserve System.

(SEAL)


S.R. Carpenter, Secretary

Date: December 11, 1957

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 3
12/11/57

F I N A L C E R T I F I C A T I O N

Pursuant to section 1101(e)(2) of the Internal Revenue Code of 1954, the Board of Governors of the Federal Reserve System hereby certifies, to the best of its knowledge and belief, that Transamerica Corporation, San Francisco, California, which formerly was a bank holding company as defined in section 2(a) of the Bank Holding Company Act of 1956, has ceased to be a bank holding company before the expiration of the period specified in subparagraph (B) of section 1101(e)(2) of the Internal Revenue Code of 1954.

Executed in Washington, D. C., pursuant to direction of the Board of Governors of the Federal Reserve System.

S. R. Carpenter, Secretary.

Date:

(SEAL)



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

Item No. 4
12/11/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 11, 1957

Mr. W. D. Fulton, Chairman,
Committee on Miscellaneous Operations,
Conference of Presidents,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Fulton:

In response to your letter of December 6 the Board has designated Mr. Joseph E. Kelleher to succeed Mr. Bethea as associate member of the Subcommittee on Cash, Leased Wire and Sundry Operations in matters pertaining to the Federal Reserve Leased Wire System.

Mr. Kelleher, now Assistant Director of the Board's Division of Administrative Services, will succeed Mr. Bethea as Director of that division upon Mr. Bethea's retirement effective January 1, 1958.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.