

Minutes for January 29, 1958

To: Members of the Board

From: Office of the Secretary

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

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

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

	A	B
Chm. Martin	x <u>WM</u>	_____
Gov. Szymczak	x <u>MS</u>	_____
Gov. Vardaman <sup>1/</sup>	_____	x _____
Gov. Mills	x <u>MS</u>	_____
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u>MS</u>	_____

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

Minutes of the Board of Governors of the Federal Reserve System  
 on Wednesday, January 29, 1958. 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. Fauver, Assistant Secretary  
 Mr. Thurston, Assistant to the Board  
 Mr. Riefler, Assistant to the Chairman  
 Mr. Marget, Director, Division of International  
 Finance  
 Mr. Hackley, General Counsel  
 Mr. Masters, Director, Division of Examinations  
 Mr. Molony, Special Assistant to the Board  
 Mr. Farrell, Assistant Director, Division of  
 Bank Operations  
 Mr. Reynolds, Economist, Division of International  
 Finance  
 Mr. Davis, Assistant Counsel  
 Mr. Young, Assistant Counsel

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

	<u>Item No.</u>
Letter to Bank of Jamestown, Jamestown, New York, approving the establishment of a branch at 730 Foote Avenue. (For transmittal through the Federal Reserve Bank of New York)	1
Letter to Counsel for the New Jersey Bankers Association replying to a question in connection with loans by a bank to an officer of another bank which is a member of the Federal Reserve System.	2

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	<u>Item No.</u>
Letter to the Federal Reserve Bank of Atlanta authorizing the Bank to waive the assessment of a penalty incurred by the Farmers National Bank, Opelika, Alabama, because of a deficiency in its reserves.	3
Letter to The El Dorado National Bank, El Dorado, Kansas, granting its application for fiduciary powers. (For transmittal through the Federal Reserve Bank of Kansas City)	4
Letter to the Deputy Comptroller of the Currency regarding the applicability of Regulation O to members of advisory boards of national bank branches. (With copies to the Federal Reserve Banks)	5

Mr. Young then withdrew from the meeting.

Request of Marine Midland Corporation for an interpretation under section 4(c)(1) of the Bank Holding Company Act (Item No. 6). There had been distributed to the members of the Board copies of a memorandum from Mr. Davis dated January 27, 1958, concerning a request by Marine Midland Corporation, Buffalo, New York, for an interpretation by the Board that the last clause of section 4(c)(1) of the Bank Holding Company Act would exempt from the divestment requirements of the Act the ownership by Marine Midland of shares of Fitrust Corporation, a wholly-owned subsidiary, on the basis that the latter is engaged "in liquidating assets acquired from" Marine Midland Corporation and its banking subsidiaries. In the alternative, Marine Midland Corporation requested a determination pursuant to section 4(c)(6) of the Act which would allow it to retain shares of Fitrust on the ground that the business of Fitrust is so "closely related" to the business of banking to be "a proper incident thereto."

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Since it seemed clear from the available information that ownership of shares of Fitrust Corporation would fall within the exemptive provisions of section 4(c)(1), the memorandum recommended a ruling by the Board, in accordance with the provisions of that section, that the prohibitions of section 4 were not applicable to Marine Midland Corporation's ownership of shares of that corporation. A draft of letter to Marine Midland Corporation was submitted for the Board's consideration.

After agreement had been reached on changes suggested by Governors Balderston and Robertson in the interest of making the proposed letter reflect more precisely the Board's position, unanimous approval was given to a letter to the Federal Reserve Bank of New York in the form attached as Item No. 6.

Mr. Davis then withdrew from the meeting.

Membership dues and contributions. There had been sent to the members of the Board copies of a memorandum from Governor Shepardson dated January 24, 1958, concerning the question of Reserve Bank expenditures for membership dues and contributions. Submitted therewith was a memorandum from Mr. Farrell dated January 9, 1958, which had been prepared at Governor Shepardson's request in the light of the discussion of membership dues and contributions at the meeting of the Conference of Chairmen of the Federal Reserve Banks in December 1957. From Mr. Farrell's memorandum it appeared that the question of memberships in service and luncheon clubs was the major issue remaining to be resolved, and alternative drafts of a letter to Chairmen and Presidents of the Federal Reserve Banks were presented,

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the first of which would be used if the Board should decide that membership in such clubs should not be at Reserve Bank expense. The second draft would be used if the Board should decide to adopt the proposal of the Conference of Presidents of the Federal Reserve Banks, submitted in June 1957, that such memberships at Bank expense be permitted upon a specific finding by the directors of the Reserve Bank concerned that they are of key importance to the role of the Bank in the community. Otherwise, both letters would express agreement in substance with the proposal of the Presidents' Conference except that (1) they would contain a paragraph indicating that contributions to organizations or to individuals outside of Reserve Bank employ would be permissible if made in recognition of services rendered to the Bank, and (2) they would be slightly more restrictive with respect to multiple memberships in the same organization. They would also express the view that it would be helpful, both to the Bank directors and to the Board, in reviewing proposed expenditures for membership dues and contributions to have future budget material include a list of the number and amount of such expenditures and the justifications therefor. For this purpose, the Board's Accounting Manual would be revised as indicated in an attachment to the letter.

In commenting on the matter, Governor Shepardson said that he had had conversations with several of the Reserve Bank Presidents, particularly those who seemed to be most concerned about the question of memberships in service and luncheon clubs, and that this appeared to

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be the only area where there remained any substantial disagreement. It appeared that the Presidents, or at least certain of them, had been looking into the question of memberships in such clubs and had been taking steps to reduce the number of memberships, but there was still quite a strong feeling in some districts that memberships of this kind were significant from the standpoint of the Reserve Bank's position in the community.

Governor Shepardson then said that after considering all aspects of the matter, especially the views expressed regarding service and luncheon clubs, he was inclined to recommend the alternative draft of letter which would permit memberships in such clubs if the board of directors of a Reserve Bank made a specific finding that the membership was of key importance to the role of the Bank in the community. In this connection, he said that the discussions held with the Reserve Bank Chairmen and Presidents seemed to have aroused an interest in and awareness of the problem involved in Reserve Bank expenditures for membership dues and contributions. Since the point had been raised and the philosophy which should cover such expenditures had become better understood, he felt that the question of service and luncheon club memberships could be referred to the Reserve Bank directors for decision in specific cases.

Governor Mills commented that the Reserve Bank Chairmen were not unanimous in feeling that service and luncheon club memberships were appropriate Reserve Bank expenses, since at least one of them had indicated

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quite strongly in conversation at the time of the last Chairmen's meeting that in his personal belief a Bank should refrain from such expenditures. This sentiment was expressed on the basis that a person rising in responsibility at a Federal Reserve Bank, with increased compensation, has an obligation to share the rewards of his employment. Governor Mills went on to say that although he did not consider the whole problem a very serious one, particularly in terms of dollars involved, he was somewhat concerned about the fact that both of the proposed letters would indicate that the Board approved the payment of contributions and gratuities to persons outside the Reserve Banks for services rendered. He felt that such a statement was dangerous in its implications.

Governor Robertson stated that he shared the views of Governor Mills, particularly with respect to countenancing the payment of contributions and gratuities to persons outside the Reserve Bank. On this and other aspects of the subject, including the matter of service and luncheon clubs, he would be inclined to adhere to rather restrictive lines because of the danger that even modest expenditures could become the subject of criticism that would tend to magnify the matter out of proper proportions. At the same time, he realized that a good case could be made for going in the other direction.

There ensued a discussion of various aspects of the problem during which reference was made to the appropriate sphere of responsibility of the Reserve Bank directors, the extent to which the Board appropriately could go in the exercise of its supervisory responsibilities in placing

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restrictions on Reserve Bank expenditures, and the question whether the proposed letters, insofar as they related to contributions, might be interpreted as liberalizing the standards previously set forth in F.R.L.S. #3187, relating to discretionary expenditures. Consideration also was given to customs in various Federal Reserve districts which might cause luncheon and service club memberships, as well as contributions, to be regarded in a somewhat different light in those districts than they would be regarded elsewhere.

On the basis of this discussion, various procedural suggestions were made for handling the matter and question was raised whether it seemed essential to write a letter to the Reserve Banks at this time. While Governor Shepardson brought out that, as the matter now stood, the Reserve Banks were anticipating a further communication from the Board, reference was made to the difficulty involved in drafting a letter concerning particular types of expenditures which would not be unduly liberal in tone and yet would still leave an appropriate area of discretion for the Reserve Bank directors. There was unanimity of opinion, however, that it would be desirable to establish an accounting procedure for the reporting of membership dues and contributions which would permit adequate review of such expenditures by the directors of the respective Reserve Banks and by the Board of Governors.

Governor Robertson then suggested that a letter be drafted under Governor Shepardson's direction which would attempt to outline the philosophy that should govern the use of Federal Reserve funds but

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would not go beyond that point to specify what particular types of expenditures for membership dues and contributions should or should not be made. To such a letter would be added a provision for the reporting of expenditures.

Governor Shepardson indicated that he would be agreeable to such a procedure, and accordingly it was understood that a letter along the lines suggested would be prepared for the Board's consideration.

Request from United States Ambassador in London. A communication dated January 27, 1958, from the American Ambassador in London, which had been transmitted to the Board through the State Department, referred to the forthcoming debate in the House of Commons concerning the report of the tribunal which inquired into the alleged leak of the decision to raise the Bank of England bank rate from 5 per cent to 7 per cent in September 1957 and stated that the British Treasury had been asked by a member of the Parliament for certain information regarding the Federal Reserve System. More specifically, the question related to outside business interests permissible for members of the Board of Governors and directors of the Federal Reserve Banks. The communication stated that the Embassy had called attention to certain pertinent provisions of the Federal Reserve Act and that it would appreciate any further information before January 31.

A draft of proposed reply to Ambassador Whitney, which had been distributed to the members of the Board, would cite certain provisions of the Federal Reserve Act relating to members of the Board and Reserve Bank

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directors and would refer to the organization of the Federal Reserve System in terms of responsibility for actions in the field of monetary and credit policy.

During a discussion of the proposed reply, question was raised regarding its responsiveness in terms of the setting in which the inquiry originated and certain suggestions were made for possible revisions of the content. In this connection, the Secretary suggested how a reply might be worded if the Board should decide to go further in the direction of providing information.

At the conclusion of the discussion, Mr. Thurston was requested to prepare for the Board's consideration a revised draft of reply which would take into account the comments made at this meeting.

The meeting then adjourned.

Secretary's Notes: Pursuant to the recommendation contained in a memorandum dated January 24, 1958, from Mr. Young, Director, Division of Research and Statistics, Governor Shepardson approved on behalf of the Board on January 27, 1958, the transfer of Sylvia D. Louderback from the position of Clerk-Stenographer in the Division of Personnel Administration to the position of Clerk-Stenographer in the Division of Research and Statistics, with no change in her basic annual salary at the rate of \$3,500, effective January 27, 1958.

On January 28, 1958, Governor Shepardson approved on behalf of the Board a letter to the Federal Reserve Bank of Richmond changing the designation of three employees of that Bank as special assistant examiners to provide for their participation in examinations of all State member banks except one to which they were indebted. A copy of the letter is attached as Item No. 7.



Secretary

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

Item No. 1  
1/29/58

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 29, 1958

Board of Directors,  
Bank of Jamestown,  
Jamestown, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System approves the establishment of a branch by Bank of Jamestown, Jamestown, New York, at 730 Foote Avenue, Jamestown, New York, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Assistant Secretary.

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

Item No. 2  
1/29/58

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 29, 1958



Mr. J. Fisher Anderson, Counsel,  
New Jersey Bankers Association,  
15 Exchange Place,  
Jersey City 2, New Jersey.

Dear Mr. Anderson:

This is in response to your letter of January 16, 1958,  
to the Board's General Counsel, Mr. Hackley, in regard to the  
following question:

"When a bank makes a loan to a bank officer of another  
member bank, is it the responsibility of the loaning  
bank to ascertain if the borrowing officer has notified  
his Board of Directors that he is negotiating the loan."

Neither section 22(g) of the Federal Reserve Act, as amended,  
nor the Board's Regulation O imposes a duty of disclosure or notifica-  
tion upon a lending bank which makes a loan to an executive officer of  
a member bank other than the lending bank.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Assistant Secretary.

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

Item No. 3  
1/29/58

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 29, 1958



Mr. L. M. Clark, First Vice President,  
Federal Reserve Bank of Atlanta,  
Atlanta 3, Georgia.

Dear Mr. Clark:

This refers to your letter of January 20, regarding the penalty of \$102.42 incurred by the Farmers National Bank, Opelika, Alabama, on a deficiency in its reserves for the period ended December 31, 1957.

It is noted that the deficiency resulted from the failure of the subject bank's Birmingham correspondent to transfer funds to the bank's reserve account as requested; that the Western Union Telegraph Company admitted its failure to transmit the message from the Farmers National Bank to the Birmingham Trust National Bank requesting the transfer; that had the transfer been made, no deficiency in the reserve account would have occurred; and that the subject bank has had no deficiency reserve penalties since September, 1950.

In the circumstances, the Board authorizes your Bank to waive the assessment of the penalty in this case.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Assistant Secretary.

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

Item No. 4  
1/29/58

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 29, 1958

Board of Directors,  
The El Dorado National Bank,  
El Dorado, Kansas.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Kansas, the exercise of all such rights to be subject to the provisions of section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers which The El Dorado National Bank is now authorized to exercise will be forwarded to you in due course.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Assistant Secretary.

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

Item No. 5  
1/29/58

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 29, 1958

Mr. L. A. Jennings,  
Deputy Comptroller of the Currency,  
Washington 25, D. C.

Dear Mr. Jennings:

This is in response to your letter of November 26, 1957, to Governor Robertson, involving the question as to whether members of advisory boards which are authorized to grant loans up to limited amounts at branches of national banks are "executive officers" within the meaning of that term as defined in the Board's Regulation O.

As explained in your letter, each branch of the national bank has a separate advisory board which is appointed by the board of directors and has authority to grant loans up to limited amounts at the branch. In some, but not all cases, the chairmen of these advisory boards receive salaries. Other members serve without salary but receive fees for attendance. Apparently, membership on the advisory board includes persons who are directors or officers and persons who are both directors and officers of the national bank although some members may be neither directors nor officers.

You request the Board's comments on your view that "in the case of an Advisory Board whose defined duties are required to be performed by that Board, a majority of its members, or a committee of not less than three acting as a body, any individual designated by the bank's Board of Directors to be an advisory board member shall not be regarded as an executive officer of the bank within the purview of section 22(g) of the Federal Reserve Act or Regulation O unless that person individually performs the duties of an executive officer."

It is noted that you regard these advisory board members as special officers of the bank who can be appointed within the directors' legal authority, and from the information you have supplied it appears that the functions of these boards are similar to the functions of executive committees of national banks, such as passing upon loans between meetings of the board of directors. Assuming that the members of such boards do not have official titles, either as active or inactive officers, and do not perform any other duties involving the operating management of the bank, the Board would agree with the view which you have expressed.

Mr. L. A. Jennings

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You have mentioned that certain chairmen of these advisory boards are paid salaries. In some cases the payment of salary might indicate that the recipient has duties to perform in an individual capacity which would bring him within the definition of an "executive officer". It is assumed, however, that the advisory board chairmen perform no duties other than to preside at meetings except in those cases where the chairman might also serve on the Board of Directors of the national bank.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,  
Secretary.

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

Item No. 6  
1/29/58

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 29, 1958

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

Dear Mr. Wiltse:

This refers to the request of Marine Midland Corporation, Buffalo, New York, for an interpretation by the Board that section 4(c)(1) of the Bank Holding Company Act exempts the Corporation's ownership of shares of Fitrust Corporation from the divestment requirements of section 4(a) of that Act. The request relates to that portion of section 4(c)(1) which exempts shares of a company engaged "in liquidating assets acquired from such bank holding company and such banks."

From the information submitted in your request, it is understood that Fitrust Corporation, a wholly-owned subsidiary of Marine Midland, was organized originally as a securities company but has not engaged actively in the trading of securities since 1938; that in 1951 Fitrust Corporation acquired all the shares of Marine Midland Group, Inc., a wholly-owned subsidiary of Marine Midland Corporation, engaged in the business of purchasing and selling installment paper to banking subsidiaries of Marine Midland Corporation; that in September 1957, Marine Midland Group, Inc., then inactive, was merged with Fitrust Corporation for the purpose of liquidation and it is understood that Fitrust Corporation did not continue the business of Marine Midland Group, Inc., referred to above; that Fitrust Corporation has been engaged from 1945 to the present in liquidating miscellaneous assets acquired through mergers and consolidations involving Marine Midland Corporation or one of its banking subsidiaries.

Section 4(c)(1) provides for the exemption from the divestment requirements of the Act of all the shares of any company engaged "in liquidating assets acquired from such bank holding company and such banks." On the basis of the information submitted, it appears that the business of Fitrust Corporation is the liquidation of assets acquired from Marine Midland Corporation and its banking subsidiaries.

Mr. R. B. Wiltse

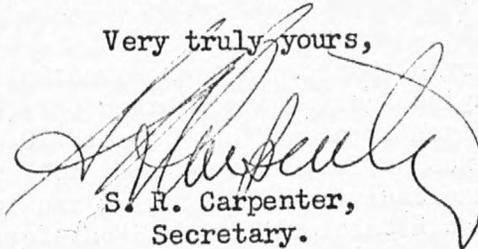
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Accordingly, it is the opinion of the Board that the provisions of section 4(c)(1) of the Bank Holding Company Act are applicable to the ownership by Marine Midland Corporation of shares of Fitrust Corporation.

The Board's view, as herein stated, is based on its understanding of the present nature of the activities of Fitrust Corporation and, of course, is applicable only as long as that Corporation's business is that of liquidating assets acquired from Marine Midland Corporation and its subsidiary banks.

It will be appreciated if you will transmit to Marine Midland Corporation the substance of this letter.

Very truly yours,

A large, stylized handwritten signature in dark ink, appearing to read 'S. R. Carpenter', is written over the typed name and title.

S. R. Carpenter,  
Secretary.

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

Item No. 7  
1/29/58

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 28, 1958

Mr. G. Harold Snead, Chief Examiner,  
Federal Reserve Bank of Richmond,  
Richmond 13, Virginia.

Dear Mr. Snead:

In accordance with the request contained in your letter of January 23, 1958, the Board approves the designation of Luther Flippen, William C. Glover, and Fenton L. Marsh as special assistant examiners for the Federal Reserve Bank of Richmond for the purpose of participating in examinations of all State member banks except The Bank of Virginia, Richmond, Virginia.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Assistant Secretary.