

Minutes for May 1, 1958


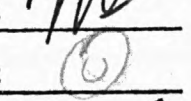

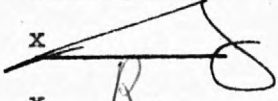
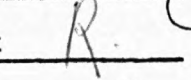
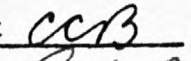
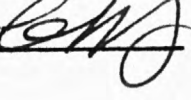
To: Members of the Board

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

Minutes of the Board of Governors of the Federal Reserve System  
on Thursday, May 1, 1958. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Leonard, Director, Division of Bank Operations  
Mr. Hackley, General Counsel  
Mr. Solomon, Assistant General Counsel  
Mr. Hexter, Assistant General Counsel  
Mr. O'Connell, Assistant General Counsel  
Mr. Hostrup, Assistant Director, Division  
of Examinations  
Mr. Benner, Assistant Director, Division  
of Examinations  
Mr. Davis, Assistant Counsel

Report on Bank Holding Company Act. With a memorandum dated April 28, 1958, Mr. Hackley submitted for the Board's consideration a draft of the report required to be made to the Congress under the Bank Holding Company Act before May 9, 1958. The report consisted of three parts, the first containing a factual account of administration of the Act, the second discussing three major difficulties encountered by the Board in administering the Act, and the third making recommendations for changes in the law. The third part represented a revision of an earlier draft of proposed recommendations in the light of previous consideration of the matter by the Board. Also submitted with Mr. Hackley's memorandum was an exhibit, which would accompany the report, in the form of a draft bill

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1/ Entered meeting at point indicated in minutes.

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to carry out the Board's recommendations. An additional proposed exhibit would show textual changes which would be made in the present law by the Board's proposed amendments, and question was raised in Mr. Hackley's memorandum whether this should be submitted with the report or made available informally to the staffs of the Senate and House Banking and Currency Committees. The report would be sent to Congress with a brief letter of transmittal to the President of the Senate and the Speaker of the House of Representatives, and a draft of such a letter was submitted with Mr. Hackley's memorandum. It was contemplated that copies of the report would also be transmitted to the Chairmen of the Banking and Currency Committees.

Subsequent to distribution to the Board of the draft report, the attention of the legal staff had been directed to a possible loophole in the Bank Holding Company Act which seemed to justify the inclusion of an additional recommendation for amendment of the Act. As described in a memorandum from Mr. Hackley dated April 30, 1958, copies of which had been distributed to the Board, a case had developed where it appeared that all of the stock of three nonbanking companies was held by trustees for the benefit of the shareholders of banking subsidiaries of the holding company. It was not clear under the language of the Act that the shares of these nonbanking companies were subject to the divestment requirements of section 4, and question also had been raised in this connection regarding the applicability of section 2 of the Act to bank stocks held by trustees for the shareholders of a subsidiary of a bank

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holding company. Accordingly, there was submitted with the memorandum a proposed addition to recommendation No. 2 in the Board's report which would be presented as part "B" of that recommendation.

At the request of the Board, Mr. Hackley commented on the three parts of the proposed report to Congress. He stated that the first part was intended to be entirely factual. However, the second section, describing the principal difficulties encountered in the administration of the Bank Holding Company Act, was perhaps the most important part of the report. The staff, he said, had endeavored to present this material in a way that would merely outline the problems involved and not make any recommendations. The most difficult part of that section related to the exercise of discretion by the Board in considering applications under section 3 of the Act, and here the staff had tried to be particularly careful simply to call attention to the difficulties encountered by the Board, thus leaving to the Congress to prescribe, if it wished, more precise standards in the law. With regard to the comments in part 2 of the report regarding transactions between holding company units, he noted that the related recommendation in part 3 of the report which would repeal section 6 of the Bank Holding Company Act and amend section 23A of the Federal Reserve Act in certain respects had been submitted for comment to the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the law firm of Covington and Burling, which represents Transamerica Corporation. In general, the comments received were



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sympathetic to the proposed recommendation of the Board except that the Comptroller of the Currency doubted the wisdom of imposing even a 10 per cent limit on purchases without recourse by a bank from a nonbanking affiliate or subsidiary of the same holding company.

Further discussion indicated that the Board members were agreeable to transmitting to the Congress a report in the form proposed by the Legal Division, with the inclusion of a recommendation such as described in Mr. Hackley's memorandum of April 30, 1958.

During this discussion Chairman Martin joined the meeting and expressed concurrence in the form of the proposed report.

Governor Balderston called attention at this point to the fact that parts of the report related to matters of a controversial nature while, on the other hand, a number of the recommendations related to matters of a technical nature on which prompt action by the Congress would be more likely. Though technical in nature, these amendments would facilitate the administration of the Act and it was his thought that perhaps the prospect of their acceptance would be enhanced if the transmittal letter could make a distinction between them and the more controversial matters.

In response, Mr. Hackley said that representatives of the bank holding companies had indicated to the Board's staff that they were awaiting the availability of the Board's report to Congress to study the recommendations therein regarding the so-called "discount" question,

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after which the holding companies would probably go to the Congress themselves and press for the amendments to the law in that regard. Therefore, in this one particular instance, at least, there seemed to be no question but that the recommendation would be given special consideration.

In further discussion of the question raised by Governor Balderston, it was suggested that distinctions between the various types of recommendations could be made in oral testimony concerning the Board's report to Congress and that any attempt to draw distinctions in the transmittal letter might tend to weaken the report as a whole. Accordingly, it was the consensus that it would be advisable to present the report in the manner presently contemplated.

Thereupon, it was agreed unanimously to refer the report back to the Legal Division for such editorial and technical changes as the staff might deem necessary, with the understanding that when these changes had been made the report would be transmitted to the Congress. In response to a question, Mr. Hackley indicated that the staff would endeavor to have the report in form for transmittal not later than May 8.

Question was raised about public release of the document and it was agreed after some discussion of this point that Chairman Martin would mention this phase of the matter to the Chairmen of the Senate and House Banking and Currency Committees, with the understanding that unless

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his conversations with those parties indicated the advisability of following some different course, the report would be released to the press by the Board for the morning papers of the day following its transmittal to the Congress.

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 the Independent Bankers Association regarding two resolutions adopted at the Association's annual convention.	1
Letter to Lincoln National Bank of Lincolnton, Lincolnton, North Carolina, approving its application for permission to exercise fiduciary powers. (For transmittal through the Federal Reserve Bank of Richmond)	2

All of the members of the staff except Messrs. Carpenter and Kenyon then withdrew from the meeting.

Visit by Investment Bankers Association. Chairman Martin outlined circumstances which indicated that it would be appropriate to extend an invitation to the Governmental Securities Committee of the Investment Bankers Association to visit the Board's offices for luncheon on Wednesday, May 28. After discussion of the circumstances involved, it was agreed unanimously that an invitation should be extended.

During the foregoing discussion, reference was made to functions held by this group and similar groups to which invitations sometimes are extended to members of the Board and staff, and the view was

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expressed that it would be well to give further thought to the circumstances under which invitations of that kind should be accepted.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum dated April 30, 1958, from Mr. Johnson, Director, Division of Personnel Administration, Governor Shepardson today ap-  
proved on behalf of the Board an increase in the basic annual salary of June E. Ayers, Administrative Assistant in that Division, from \$7,465 to \$7,785 per annum, effective May 4, 1958.

  
Secretary





BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 1  
5/1/58

OFFICE OF THE CHAIRMAN

May 1, 1958

Mr. Howard Bell, Assistant Secretary,  
The Independent Bankers Association,  
Sauk Centre, Minnesota.

Dear Mr. Bell:

This will acknowledge your letter of April 7 enclosing copies of two resolutions adopted by the 24th annual convention of the Independent Bankers Association at Dallas, Texas, March 6 to 8, inclusive. These resolutions refer to (a) the handling as cash items of insurance company drafts for payment of premiums and (b) the procurement by examiners of the annual current cost of bankers' blanket bonds and losses paid by surety companies for 10 preceding years in banks.

The problems raised by the various plans under which drafts drawn by insurance companies against customers' check accounts are processed as cash items through the check collection system have been considered both by the American Bankers Association and the Federal Reserve Banks.

In 1954 the Bank Management Commission of the ABA issued a statement advising member banks against adoption of such plans. In statements issued in April 1956 and again in April 1957, the Bank Management Commission, after review, reaffirmed its position. The Reserve Banks, while sympathizing with this position, have felt that, inasmuch as they are under a statutory obligation to collect checks drawn on their member banks, they would not be justified in refusing to handle as cash items insurance-premium drafts that are drawn in the form of checks.

It would seem that the matter of insurance-premium and similar drafts drawn on customers' checking accounts is one of bank-customer relations which should be handled by the banks themselves, either individually or collectively, rather than one to be determined for the banking system by the Federal Reserve Board and the Federal Reserve Banks.

The second resolution referred to above requests supervisory agencies to obtain through examiners in every bank examination the current annual cost of the bankers' blanket bond and the total of losses incurred for 10 preceding years which have been paid by surety companies.

Mr. Howard Bell

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The purpose in obtaining this information as stated by the resolution of your association is that it would be informative to know the experience ratio of the cost of bankers' blanket bonds to the losses paid out by surety companies. Accordingly, the figures obtained by examiners in each report of examination would require further processing by supervisory agencies to obtain this desired experience ratio. The expense of such a project and the loss of time of specialized employees could attain formidable proportions.

It has not been the policy of supervisory agencies to employ the services of examiners in the procurement and processing of statistical information unrelated to the purpose of the examination. There have been exceedingly rare instances when statistical information normally gathered by examiners through usual examination procedures and solely for the purpose of the examination, has been made available where no violation of the principle of confidentiality occurred and where the identity of banks involved could not be ascertained from the statistics. It has not been the practice, however, to undertake special examination projects solely for the collection of information. Such activities would place heavy extra burdens on examining staffs in pursuance of projects that would not be essential to the completion of the examining process and would be inappropriate to the purpose of bank examination.

The study you propose would undoubtedly be of interest and might have a bearing on bank expenses. It would seem to be of greatest practical worth if it were completed on a specific date. This could be effected by a questionnaire sent directly by the I.B.A. to banks. Even if all banks did not return the questionnaire, the substantial number that undoubtedly would do so would supply the information you require.

It is with considerable regret that I am obliged to give you this answer, but I am certain you will understand the sound policy considerations which bring about this decision.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

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

Item No. 2  
5/1/58

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 1, 1958

Board of Directors,  
Lincoln National Bank of Lincolnton,  
Lincolnton, North Carolina.

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 North Carolina, 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 Lincoln National Bank of Lincolnton is now authorized to exercise will be forwarded to you in due course.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,  
Secretary.