

Minutes for August 12, 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>(M)</u>	<u> </u>
Gov. Szymczak	<u> </u>	x <u>MS</u>
Gov. Vardaman	x <u>(V)</u>	<u> </u>
Gov. Mills	<u> </u>	x <u> </u>
Gov. Robertson	<u> </u>	x <u>R</u>
Gov. Balderston	x <u>CB</u>	<u> </u>
Gov. Shepardson	x <u> </u>	<u> </u>

Minutes of the Board of Governors of the Federal Reserve System on
Tuesday, August 12, 1958. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Vardaman
Mr. Shepardson

Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant Secretary
Mr. Leonard, Director, Division of
Bank Operations
Mr. Shay, Legislative Counsel
Mr. Solomon, Assistant General Counsel

Matter relating to condition of membership of The Michigan Bank, Detroit, Michigan. Governor Vardaman reported that he had received a telephone call yesterday afternoon from Mr. James B. Alley, counsel for The Michigan Bank, who stated that The Michigan Bank had submitted correspondence to the Board in connection with the third condition of membership laid down by the Board upon admission of The Michigan Bank on April 26, 1956. This condition related to the investment of certain funds of a proposed employees' profit-sharing retirement trust in shares of stock of the subject bank. Counsel for The Michigan Bank had requested that before a decision was made by the Board with regard to the correspondence an opportunity be afforded for representatives of the bank to appear.

At Governor Vardaman's suggestion, Mr. Solomon was authorized to call Mr. Alley and tell him that the letter had been received and that he would be notified when the Board was ready to discuss the matter.

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Discount rates. Unanimous approval was given to a telegram to the Federal Reserve Bank of Boston approving the establishment without change by that Bank on August 11, 1958, of the rates on discounts and advances in its existing schedule.

Item circulated to the Board (Item No. 1). There had been circulated to the members of the Board a letter to the Federal Reserve Bank of St. Louis concurring in the view that section 32 of the Banking Act of 1933 was applicable to the concurrent service of Mr. Elmer J. Gieselman as a director of Normandy State Bank, Normandy, Missouri, and as a salesman for the firm of Yates, Heitner and Woods, St. Louis, Missouri. Unanimous approval was given to the letter, a copy of which is attached to these minutes as Item No. 1.

Proposal for a Thirteenth Federal Reserve District (Item No. 2). Prior to the meeting there had been distributed to the Board a proposed reply to a joint letter dated August 7, 1958, from Senators Magnuson and Jackson of the State of Washington, relating to the possible creation of a new Thirteenth Federal Reserve District to serve the Pacific Northwest and Alaska. The proposed reply followed the general nature of the recent response to Senator Neuberger of Oregon on the same subject. Minor editorial changes were decided upon and it was then unanimously agreed to send a letter to Senator Magnuson in the form attached to these minutes as Item No. 2, with a similar letter to Senator Jackson. It was also understood that a similar reply would be

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made to Governor Rosellini of Washington, and to others writing to the Board on this same subject whenever such a reply would be appropriate.

Loss-Sharing Agreement of the Federal Reserve Banks (Item No. 3).

Prior to the meeting there had been distributed a memorandum dated August 6, 1958, from Mr. Leonard relating to correspondence from Mr. Fulton, Chairman of the Committee on Miscellaneous Operations of the Conference of Presidents, requesting the Board's approval of certain proposed amendments to the Loss-Sharing Agreement of the Federal Reserve Banks. These amendments had been approved at a special meeting of the Presidents' Conference on July 29.

The proposed amendments were designed to put into effect the following recommendation of the Special Committee on Emergency Operations in its report of April 25, 1958, which was approved by the Conference of Presidents:

- (1) That the System adopt the policy of assuming, during an emergency, under the System Loss-Sharing Agreement
 - (a) war risks on currency shipments between Federal Reserve Banks and non-Agent banks and on such shipments between Agent banks and non-Agent banks, including nonmember banks,
 - (b) other risks on currency shipments involving non-member banks to the extent such risks are already assumed on shipments involving member banks, and
 - (c) liabilities resulting from indemnity provisions of agreements between Federal Reserve Banks and Agent banks.

Mr. Leonard pointed out that proposals (a) and (b) above were designed to facilitate the supply and distribution of currency in case

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of a national emergency. The proposed amendments to the Loss-Sharing Agreement would provide war risk coverage on currency shipments between Federal Reserve Banks and other banks, including nonmember banks. Also, losses of a Federal Reserve Bank resulting from indemnity provisions in contracts with Cash Agent banks would be covered under the proposed amendments.

Following Mr. Leonard's explanation of the amendments to the Loss-Sharing Agreement, it was unanimously agreed to approve the proposed amendments and to send the letter attached to these minutes as Item No. 3 to Mr. Fulton, Chairman of the Committee on Miscellaneous Operations of the Conference of Presidents.

Proposed merger of First Western Bank & Trust Co. of California and the California Bank, Los Angeles. Governor Balderston reported that during the 11 o'clock market call on Monday, Mr. Mangels had mentioned incidentally that the San Francisco Federal Reserve Bank expected to receive soon papers from the Firstamerica Corporation outlining plans for its acquisition of a major share of the outstanding stock of the California Bank. Once such stock had been obtained, it was planned to merge or consolidate this institution with another banking subsidiary of Firstamerica, the First Western Bank & Trust Co.

Supplementing this information, Mr. Solomon mentioned that he had received a visit from Mr. Gerhard Gesell, who was acting as counsel

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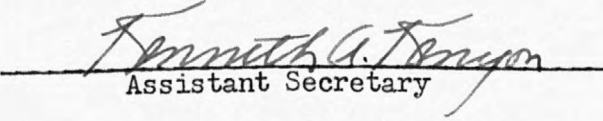
for the Firstamerica Corporation in this transaction, and who had substantiated the intentions of Firstamerica Corporation as outlined by Governor Balderston. It was pointed out that the California Bank operated 63 branch offices in southern California and First Western maintained 99 offices, most of which were in the central and northern portions of California.

Thereupon the meeting adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Memorandum dated August 7, 1958, from Mr. Leonard, Director, Division of Bank Operations, recommending that Barbara J. Wrenn, Statistical Clerk in that Division, be allowed to work an additional month before she begins her maternity leave, and that, when she begins her maternity leave on September 8, she be granted the annual and sick leave remaining to her credit at that time and, if necessary, the remaining part of her maternity leave, not exceeding six full pay periods after the date of confinement, be charged to leave without pay.

Letter to the Federal Reserve Bank of New York approving the appointment of John C. Parker as examiner and Donald M. Burd and Noel D. Stafford, Jr., as assistant examiners. A copy of the letter is attached as Item No. 4.


Assistant Secretary

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

Item No. 1
8/12/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 12, 1958

Mr. Geo. E. Kroner, Vice President,
Federal Reserve Bank of St. Louis,
St. Louis 2, Missouri.

Dear Mr. Kroner:

Reference is made to your letter of June 23, 1958, regarding a possible violation of section 32 of the Banking Act of 1933 by the concurrent service of Mr. Elmer J. Gieselman as a director of Normandy State Bank, Normandy, Missouri, and as a salesman for the firm of Yates, Heitner and Woods, St. Louis, Missouri.

Two questions are presented: (1) whether the firm is "primarily engaged" in the types of business described in section 32, and (2) whether Mr. Gieselman is an "employee" of the firm.

With respect to the first question, you have ascertained by means of several conferences and letters that about 13 per cent of the annual dollar volume of the business of the firm consists of business of the kinds described in section 32, the remainder being brokerage business. Furthermore, you point out that in the Directory of Security Dealers of North America, the firm describes itself as "Underwriters, distributors, brokers and dealers in corporate and municipal securities, institutional issues; stock and commodity brokers". On the basis of this information, it is your view that the firm comes within the statute.

In cases of this kind, it is preferable to obtain, if possible, additional data of the kinds outlined in the Board's letter of January 27, 1948 (which is being rewritten with a view to inserting it in the Federal Reserve Loose-Leaf Service), particularly information as to the percentage of the firm's total



Federal Reserve Bank of -2-
St. Louis

gross income derived from section 32 business, and to obtain the figures for several years. However, on the basis of such information as you have been able to obtain, there would seem to be no reason to differ from your view that the firm comes within the statute.

The question whether Mr. Gieselman is an "employee" of the firm within the meaning of the statute appears to be a very close one. He is registered as a salesman of the company under the Missouri Securities Law and with the National Association of Securities Dealers, and although some of the facts listed in the enclosures with your letter point to his being an independent contractor and some point to his being an employee, the Board agrees with the view of your counsel that Mr. Gieselman appears to be an "employee" and that, therefore, the statute is applicable to his current service as a director of Normandy State Bank.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 2
8/12/58

OFFICE OF THE CHAIRMAN

August 12, 1958

The Honorable Warren G. Magnuson,
United States Senate,
Washington 25, D. C.

Dear Senator Magnuson:

I am pleased to acknowledge the letter of August 7, 1958, signed jointly by you and Senator Jackson, and also your letter of August 8, in which reasons are given for your view that Seattle would be an appropriate location for a new Federal Reserve Bank in the event that a thirteenth Federal Reserve district should be created to serve the Pacific Northwest and Alaska.

The question you present is under study in accordance with the Alaskan Statehood bill which provides that "when the State of Alaska is hereafter admitted to the Union the Federal Reserve districts shall be readjusted by the Board of Governors of the Federal Reserve System in such manner as to include such State."

In this connection, the Federal Reserve Act states that Federal Reserve districts "may be readjusted and new districts may from time to time be created by the Board of Governors of the Federal Reserve System, not to exceed twelve in all." Accordingly, it would be necessary to obtain the approval of the Congress in order to create a thirteenth Federal Reserve district.

The Board will be glad to give consideration to the views expressed in your letters. It is probable, however, that the Board will defer any recommendation to the Congress until it becomes clearer what action the Congress decides to take in regard to the pending Hawaiian Statehood measure.

I am sending a similar reply to Senator Jackson.

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. 3
8/12/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 12, 1958



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

Dear Mr. Fulton:

This refers to your letter of July 30, 1958, requesting the Board's approval of the proposed amendments to the Loss-Sharing Agreement of the Federal Reserve Banks, which were approved by the Presidents at the special meeting of the Conference on July 29.

The Board has approved the proposed amendments to the Loss-Sharing Agreement, as stated in Exhibit "A" of the report of the Insurance Committee of the Federal Reserve Banks dated June 26, 1958.

It is understood that the Chairman of the Insurance Committee will furnish two copies of the revised Agreement to each of the Federal Reserve Banks for execution and that each Reserve Bank will then forward a duly executed counterpart original of the revised Agreement to the Board. When executed counterparts have been received from all Federal Reserve Banks, the Board will notify the Banks by wire, and, as provided in Section 18 of the agreement, the revised agreement will become effective as of the date of such notice.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 4
8/12/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 12, 1958



CONFIDENTIAL (FR)

Mr. H. H. Kimball, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Kimball:

In accordance with the request contained in your letter of August 8, 1958, the Board approves the appointment of John C. Parker as an examiner and Donald M. Burd and Noel D. Stafford, Jr. as assistant examiners for the Federal Reserve Bank of New York. Please advise as to the dates upon which the appointments are made effective.

It is noted that Mr. Parker is indebted to The Newton Trust Company, Newton, New Jersey, a nonmember bank, in the amount of \$3,259.03 for a mortgage on his home. Accordingly, the Board's approval is given with the understanding that Mr. Parker will not participate in any examinations of that bank until his indebtedness has been liquidated.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.