

To: Members of the Board


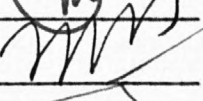
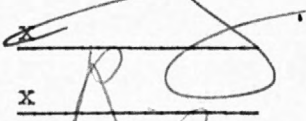
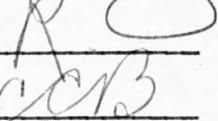
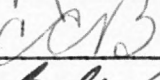
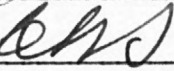
From: Office of the Secretary

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

It is proposed to place in the record of policy actions required to be kept under the provisions of Section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below:

Page 15 Approval of a discount rate of 3 per cent at the Federal Reserve Banks of New York, Philadelphia, Chicago, and Dallas.

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
Chairman Martin	x <u></u>	_____
Governor Szymczak	x <u></u>	_____
Governor Mills	x <u></u>	_____
Governor Robertson	x <u></u>	_____
Governor Balderston	x <u></u>	_____
Governor Shepardson	x <u></u>	_____

Minutes of the Board of Governors of the Federal Reserve System
on Thursday, March 5, 1959. The Board met in the Board Room at 10:25 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank
Operations
Mr. Molony, Special Assistant to the Board
Mr. Noyes, Adviser, Division of Research
and Statistics
Mr. Solomon, Assistant General Counsel
Mr. Hexter, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division
of Examinations
Mr. Goodman, Assistant Director, Division
of Examinations
Mr. Benner, Assistant Director, Division
of Examinations
Mr. Kiley, Assistant Director, Division
of Bank Operations
Mr. Hill, Assistant to the Secretary
Mr. Thompson, Supervisory Review Examiner,
Division of Examinations

At 10:00 a.m. the members of the Board met with Mr. Julian Baird,
Under Secretary of the Treasury, to discuss certain aspects of the
Treasury-Federal Reserve study of the Government securities market.
Members of the Board's staff present included Messrs. Sherman, Riefler,
Thomas, and Young, Director, Division of Research and Statistics. At

1/ Withdrew from meeting and reentered at points indicated in minutes.

3/5/59

-2-

10:25 a.m. Messrs. Baird and Young withdrew and the meeting proceeded, with attendance as indicated at the beginning of these minutes.

Mercantile Trust Company of St. Louis. In a memorandum dated March 4, 1959, which had been distributed to the Board, Mr. Hackley referred to a letter dated February 28, 1959, from Mr. Raymond P. Brandt, Chief of the Washington Bureau of the St. Louis Post-Dispatch, requesting certain information regarding the reacquisition by the Mercantile Trust Company, St. Louis, Missouri (formerly the Mercantile-Commerce Bank and Trust Company), of stock of Mercantile-Commerce National Bank in St. Louis. It was noted that the Board and the Federal Reserve Bank of St. Louis on a number of occasions had refused to disclose similar information regarding this matter on the basis that it was unpublished information under the Board's Rules of Organization. Prior to the request from the St. Louis Post-Dispatch, the most recent request for similar information came last month from a St. Louis attorney representing the plaintiff in a pending suit against the Mercantile Trust Company, and the attorney was now seeking such information on behalf of the plaintiff by means of a subpoena served on President Johns of the St. Louis Reserve Bank. It was understood that the United States Attorney would join Reserve Bank Counsel today in arguing a motion to quash the subpoena.

The St. Louis Post-Dispatch had requested answers to the following questions:

3/5/59

-3-

Did Eugene Black, then a member of the Board, notify Mercantile Trust Co. it would be required to obtain approval from the Federal Reserve Board in order to reacquire stock of the Mercantile-Commerce National Bank in St. Louis?

Did Mercantile Trust seek the Federal Reserve Board's approval for reacquisition of the stock of the Mercantile-Commerce National Bank?

Did Mercantile Trust violate the law or any regulations of the Federal Reserve Board in reacquiring the stock of Mercantile-Commerce National Bank?

If so, was any action taken by the Board as a consequence?

A draft of reply to the newspaper representative, submitted with Mr. Hackley's memorandum, would decline to answer the questions on the basis that the circumstances surrounding the litigation involving Mercantile Trust Company did not justify a departure from the general rule against disclosure of unpublished information concerning a particular member bank.

In commenting, Mr. Hackley said that it had seemed desirable for the reply to the Post-Dispatch to go into more detail than might otherwise be the case in view of the nature and origin of the request. To answer specific questions about actions taken in this matter would, he noted, require rather extensive treatment of the history and development of the case in order to avoid presenting an erroneous picture. As indicated in his memorandum, the position taken in the proposed reply to the Post-Dispatch was in line with the position taken by the Board on a number of previous occasions.

3/5/59

-4-

The Board then reexamined its position in the light of the confidentiality of relationships appropriate to the bank supervisory area, and also from the public relations standpoint. In view of the long history of the case, the position consistently taken by the Board with respect to inquiries concerning it, and the principles applicable generally to the disclosure of unpublished information, it was the consensus that the specific inquiries from the St. Louis Post-Dispatch should not be answered. In this connection it was pointed out that documents providing answers to the first two questions were in the possession of the Mercantile Trust Company and that the president of that bank had been subpoenaed to produce them. It was also pointed out that the information desired by the Post-Dispatch did not appear to be necessary to determination of the pending litigation, since the court rather than the Board must decide whether a violation of the law actually occurred. In the circumstances, it was felt that the Board should guard against any action that might tend to interfere with the judicial process or prejudice the position of either party to the current litigation.

A number of suggestions were considered as to the form of reply that would be appropriate, following which the Legal Division was requested to prepare a revised draft of letter for the Board's consideration which would attempt to develop more fully the importance of, and

3/5/59

-5-

reasons for, nondisclosure of unpublished information pertaining to the supervision of commercial banks and emphasize the Board's desire not to interfere with the judicial process.

Chairman Martin withdrew from the meeting during the foregoing discussion, as did Messrs. Riefler and Thomas. At the conclusion of the discussion Mr. Thurston also withdrew.

Consolidated Naval Stores Company (Items 1 and 2). With reference to the application of Consolidated Naval Stores Company, Sebring, Florida, for a prior tax certification in order that it might distribute to its shareholders part of its holdings of stock in a subsidiary bank and a subsidiary bank holding company on a tax-free basis, there had been distributed to the Board memoranda from the Division of Examinations and the Legal Division, dated February 26 and March 2, 1959, respectively, recommending issuance of the requested certification.

Following comments by Messrs. Hostrup and Hexter, the issuance of the certification was approved unanimously by the Board. A copy of the certification is attached hereto as Item No. 1 and a copy of the letter sent to the Commissioner of Internal Revenue concerning the matter is attached as Item No. 2. Pursuant to the Board's action, a duplicate original of the certification was sent to Consolidated Naval Stores Company, with a copy to the Federal Reserve Bank of Atlanta.

3/5/59

-6-

Messrs. Molony and Thompson then withdrew from the meeting.

Verification and destruction of United States currency. In March 1957 the Board discussed the question of possible changes in the arrangement under which the Reserve Banks destroy unfit United States paper currency for the Treasury Department and directed its staff to discuss the matter with the staff of the Treasury. The Division of Bank Operations subsequently entered into a series of discussions with the Treasury and the Reserve Banks to develop estimates of the cost of a possible "take back" by the Treasury of the verification and destruction work versus the present cost of the function as performed at the Federal Reserve Banks and branches. In the course of the study of alternative plans, those receiving the most consideration were Plan A, under which the Treasury would resume the operation in its entirety, and Plan B, under which the currency would be cancelled and cut at the Reserve Banks, the lower halves shipped to the Treasury for verification and destruction, and the upper halves retained by the Reserve Banks for subsequent destruction. Under Plan B, the net annual effect on Federal Reserve and Treasury costs combined would be an increase of about \$250,000; under Plan A, the increase would be about \$350,000. Either alternative would provide safeguards not possible under the present arrangement.

A memorandum from the Division of Bank Operations dated February 27, 1959, describing Plans A and B and giving cost estimates

3/5/59

-7-

had been distributed to the Board prior to the meeting. The memorandum presented for the Board's consideration the following alternatives: (1) continue the present arrangement but consider the desirability of making mandatory whatever additional safeguards were needed to reduce the risk of misappropriation of cancelled currency through collusion at the Reserve Banks; or (2) address a letter to the Treasury which would (a) state that the Board was concerned about the risks inherent in the present arrangement and (b) request the Treasury's views with regard to possible adoption of Plan B.

After discussion of the present procedure and possible alternatives, it was agreed unanimously, pursuant to the suggestion of Governor Robertson, that a letter be written to the Treasury expressing concern regarding the present arrangement and requesting the Treasury's view on a better procedure, including either Plan A or Plan B. In the event the Treasury was averse to a change, this suggestion contemplated (1) advising the Treasury that the Board would insist on whatever safeguards were considered necessary under the present arrangement, and (2) requesting the Presidents' Conference to institute a complete study of procedures followed in the verification and destruction function with a view to prescribing adequate safeguards applicable to all of the Reserve Banks.

While indicating agreement with such a procedure, Governor Mills commented that, with current procedures under review by the Board's examining staff, the Reserve Bank auditors, and Treasury staff, he felt

3/5/59

-8-

that just about everything within reason was being done by way of safeguard. The real problem, therefore, was whether to continue or dispense with the present arrangement. Other members of the Board indicated that they would prefer to dispense with the present arrangement but doubted whether it would be possible.

Messrs. Young, Director, and Williams, Associate Adviser, Division of Research and Statistics, joined the meeting during the foregoing discussion; at its conclusion Messrs. Farrell, Hexter, and Kiley withdrew and Messrs. Thomas and Molony returned to the meeting.

Hearings on administered prices. In accordance with the understanding at the meeting on February 25, 1959, a draft of statement to be made by Mr. Young before the Senate Subcommittee on Antitrust and Monopoly on March 10, 1959, in connection with its hearings on administered prices and inflation had been distributed to the Board.

The initial reaction was favorable, and it was understood that the draft would be reviewed by the members of the Board in more detail prior to further consideration of the matter.

Secretary's Note: At the afternoon session, further reference was made to the proposed statement by Mr. Young. Certain questions were raised and suggestions made by members of the Board, particularly Governor Mills. It was understood that these suggestions would be considered by Mr. Young in preparing the final draft of his statement, along with any further suggestions sent to him by members of the Board. In this connection, it was understood that Mr. Young's appearance before the Subcommittee was contingent upon receipt of a letter of invitation from Chairman Kefauver.

3/5/59

-9-

The meeting then recessed and reconvened in the Board Room at 2:00 p.m. with all of the members of the Board present. Messrs. Sherman, Kenyon, Riefler, Thomas, Hackley, Farrell, Molony, Noyes, Benner, Hill, and Conkling, Assistant Director, Division of Bank Operations, also were present. Mr. Young joined the meeting somewhat later.

Check collection time schedule. Following the meeting of the Federal Open Market Committee on March 3, 1959, the Board met informally with the Reserve Bank Presidents with regard to the current proposal to increase from two days to three days the period of maximum deferment under the check collection time schedules of the Federal Reserve Banks. No views substantially different from those theretofore expressed were stated by the Presidents.

Chairman Martin commented that this proposal had been discussed within the System over a long period of time and also had been discussed by the Reserve Banks with parties outside the System. Among other things, it had received attention in connection with the recent Treasury financing on the basis of the possible effect of its adoption on bank reserves. In view of the important problems confronting the System concerning the proposal, he was inclined to feel that it would not be desirable to adopt the proposal at this time. Therefore, without going to the merits or demerits of the proposal, he would suggest that it be laid on the table.

3/5/59

-10-

Governor Robertson said that he continued to regard the proposal as sound. If it were possible to adopt it and offset the effect on reserves through open market operations prior to the forthcoming Treasury financing operations, he would consider such a procedure advisable. However, he did not think that that could be done. Therefore, he would be agreeable to putting the matter over for further consideration sometime in June or July, at which time the outcome of the proposed legislation on reserve requirements might be more clear. If such legislation were to be enacted, action on the proposal to increase the period of maximum deferment might be timed to absorb reserves released through permitting vault cash to be included as part of required reserves, although he felt that any offsetting could be accomplished through open market operations if necessary, as far as the change in maximum deferment was concerned.

Chairman Martin then repeated his suggestion that the matter be laid on the table, adding that the action today should not leave the implication that anyone had committed himself in favor of the proposal. In response to a question, he expressed the view that the absence of an announced negative decision would not be unduly disturbing to the banking community provided it was generally understood that there was no likelihood of the maximum deferment being increased in the near future. There was some advantage, he felt, in not giving the impression that the Board had closed the door on the possibility.

3/5/59

-11-

After further discussion, unanimous agreement was expressed with Chairman Martin's suggestion that the matter be laid on the table, it being understood that this action was taken without prejudice to reconsideration of the proposal at some future time and without commitment on the part of any Board member as to what his position might be at a later date. It was understood that advice of the decision to lay the matter on the table would be sent to the Presidents of the Federal Reserve Banks and to the Federal Advisory Council but that no public announcement would be made.

Messrs. Young, Farrell, and Conkling then withdrew and Messrs. Solomon, Assistant General Counsel, and Brill, Chief, Capital Markets Section, Division of Research and Statistics, entered the meeting.

Withdrawal-substitution rule. Pursuant to the understanding at the meeting on February 13, 1959, there had been distributed to the Board a memorandum from Mr. Solomon dated February 27, 1959, and a supplementary memorandum dated March 3, 1959, setting out possible amendments to Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, which would provide a "percentage" withdrawal-substitution rule. In his February 27 memorandum, Mr. Solomon also presented a series of amendments intended to increase the effectiveness of Regulation U. Because of an inter-relationship, this involved in one instance a proposed amendment to Regulation T.

3/5/59

-12-

Following explanatory comments by Mr. Solomon and supplementary remarks by Mr. Brill with respect to the suggested withdrawal-substitution rule, Chairman Martin turned to other members of the staff, all of whom indicated general agreement with the approach outlined in Mr. Solomon's memorandum.

The Chairman then turned to Governor Szymczak who commented that the margin regulations were of a complicated character and tended to become more complicated as more was written into them. However, he felt that the proposed withdrawal-substitution rule represented a step in the right direction at this time. Should it be adopted, the Board would have to learn with experience and could modify the rule if necessary.

The Chairman then referred to the question of timing and indicated that he would hesitate to take precipitate action. Instead, he felt that it would be desirable to provide an opportunity to have the views of interested parties. With regard to the general framework of regulation in the area of stock market credit, he observed that there were now only two further moves of substance available for the Board's consideration; namely, action in the withdrawal-substitution area and an increase in margin requirements to 100 per cent. In those circumstances, he suggested that it was desirable to consider the element of timing carefully in order to obtain the maximum advantage.

3/5/59

-13-

These comments by the Chairman led to a discussion of the question of publication of the proposed amendments in the Federal Register, and Mr. Solomon commented that if publication were decided upon, the customary practice would provide a period of about 30 days for receipt of comments. When such comments were received and had been considered, a period of 30 days was envisaged before making the proposals effective in the absence of unusual circumstances. In this regard, he observed that an opportunity would be presented in the period following publication of any withdrawal-substitution rule proposal in the Federal Register for a stripping down of margin accounts.

The pros and cons of publication in the Federal Register were then explored at some length. However, at the outset of the discussion it was agreed that in any event it would be desirable to proceed immediately to obtain the views of the Federal Reserve Bank of New York and the staff of the Securities and Exchange Commission, not only regarding the withdrawal-substitution rule but also the proposed amendments designed to increase the effectiveness of Regulation U. It was understood that these views would be solicited on an informal basis by Mr. Solomon.

Governor Robertson then made a statement in which he expressed the opinion that the Board should move in a tightening direction on

3/5/59

-14-

both withdrawals and substitutions. He did not maintain that the Board should move in that area to a 90 per cent basis, but he felt it would be desirable to take appropriate initial action so that eventually the withdrawal-substitution requirements and the margin requirements might be placed on a parity. As a first step, he suggested placing the withdrawal and substitution rules on a 50 per cent basis, thus leaving leeway to deal with any problem that might arise. As to publication of the proposals, he realized that such notice would permit stripping of accounts but was not inclined to feel that that would be serious. Furthermore, it would be better, he felt, to solicit views generally than to seek views of only selected parties. Once the comments following publication in the Federal Register had been received and considered, he felt that the Board should move rather promptly to put into effect such amendments to Regulation T and U as it might decide upon.

At this point Chairman Martin withdrew from the room to receive a telephone call from President Hayes of the Federal Reserve Bank of New York.

Discussion continued with respect to questions of timing and publication of the proposed amendments. Question also was raised with regard to the possible effect on the stock market of immediate adoption of tighter withdrawal-substitution rules, and the response of the staff was in terms that it was extremely difficult to anticipate the market reaction to any new regulatory development.

3/5/59

-15-

Governor Balderston suggested at this point the possibility of drafting a statement concerning the proposals in layman's language, to the extent possible, in order to aid public understanding of the Board's objectives, and this suggestion was favored.

As the discussion progressed, it became clear that the sentiment of the Board definitely favored publication of the proposed amendments to Regulation T and U in the Federal Register. While it was felt that the period provided for receipt of comments should not be shortened to such an extent as to give the appearance of being arbitrary, the view also was expressed that unnecessary delay would be inadvisable and that a period somewhat shorter than 30 days should suffice to give all interested parties ample opportunity to make their views known.

At this point Chairman Martin returned to the meeting.

Discount rates. There had been received today from the Federal Reserve Banks of Philadelphia, Chicago, and Dallas telegrams stating that the directors of those Banks had approved, subject to the approval of the Board of Governors, a rate of 3 per cent (rather than 2-1/2 per cent) on discounts for and advances to member banks under sections 13 and 13a of the Federal Reserve Act along with appropriate subsidiary rates on discounts and advances.

The Chairman reported having received advice by telephone from President Hayes of the Federal Reserve Bank of New York that the

3/5/59

-16-

directors of that Bank at their meeting this afternoon likewise had established a discount rate of 3 per cent, subject to the approval of the Board of Governors.

Thereupon, the rates established by the Federal Reserve Banks of New York, Philadelphia, Chicago, and Dallas were approved unanimously, effective March 6, 1959, with the understanding that a telegram advising of this action would be sent to all Federal Reserve Banks and branches, a press statement in the usual form would be released at 4:00 p.m. EST today, and a notice would be published in the Federal Register. The rates approved for the respective Banks pursuant to this action were as follows:

On discounts for and advances to member banks under sections 13 and 13a: for the Federal Reserve Banks of New York, Philadelphia, Chicago, and Dallas--3 per cent;

On advances to member banks under section 10(b): for each of these Banks--3-1/2 per cent;

On advances to individuals, partnerships, and corporations other than member banks under the last paragraph of section 13: for Chicago--4-1/2 per cent.

Other rates in the existing schedules of the four Banks without change.

Possible amendments to Regulation U. As heretofore indicated, Mr. Solomon's memorandum dated February 27, 1959, also had suggested a number of amendments for the Board's consideration designed to increase the effectiveness of Regulation U. After some preliminary discussion of these items, it was understood that the subject would be considered further at the meeting of the Board tomorrow.

3/5/59

-17-

The meeting then adjourned.

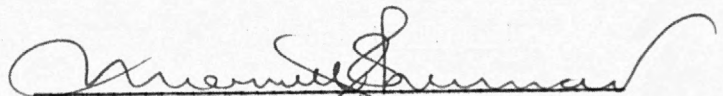
Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the following items affecting the Board's staff:

Salary increase

Walter Henderson, from \$3,255 to \$3,495 per annum, with a change in title from Operator, Tabulating Equipment (Trainee), to Operator, Tabulating Equipment, Division of Administrative Services, effective March 8, 1959.

Notice of retirement

Robert F. Leonard, Special Adviser to the Board, effective April 1, 1959.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

858

Item No. 1
3/5/59

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 Consolidated Naval Stores Company, Sebring, Florida ("Consolidated"), that it proposes to distribute to its shareholders 12,000 shares of the stock of Barnett National Bank of Jacksonville, Jacksonville, Florida, and 12,000 shares of the stock of Barnett National Securities Corporation, a corporation registered as a bank holding company in accordance with section 5(a) of the Bank Holding Company Act of 1956 (12 U.S.C. 1844).

2. Consolidated has submitted to the Board of Governors appraisals of the value of the assets owned by it on May 15, 1955 and December 31, 1957, together with statements by Consolidated as to (a) the correctness and completeness of said appraisals and (b) changes in the composition and value of Consolidated's assets after December 31, 1957. This certification is based in part upon said appraisals and statements, but it does not constitute a certification or finding by the Board as to the correctness of said appraisals and statements.

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

- (a) Consolidated 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.

(b) The 12,000 shares of Barnett National Bank of Jacksonville, referred to in "1" above, are all or part of the property by reason of which Consolidated controls (within the meaning of section 2(a) of the Bank Holding Company Act of 1956) said bank;

The 12,000 shares of Barnett National Securities Corporation, referred to in "1" above, are all or part of the property by reason of which Consolidated controls (within the meaning of section 2(a) of the Bank Holding Company Act of 1956) said bank holding company.

(c) The proposed distribution of the shares of bank stock and bank holding company stock enumerated hereinabove is 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)

Date: March 5, 1959

(Signed) Merritt Sherman
Merritt Sherman,
Secretary.

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

Item No. 2
3/5/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 5, 1959



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

Dear Sir:

Enclosed is a Certification by the Board of Governors, pursuant to sections 1101(b) and 1103(b) of the Internal Revenue Code of 1954, with respect to a proposed distribution by Consolidated Naval Stores Company, Sebring, Florida, in accordance with the provisions of the Bank Holding Company Act of 1956 (12 U.S.C. 1841, et seq.). A duplicate original of the Certification is being sent to Consolidated.

Paragraph "2" of the enclosed document relates to appraisals of the value of Consolidated's assets. Certifications heretofore issued by the Board under the Bank Holding Company Act have not included a paragraph of this nature, and the following comments may clarify the reasons for its inclusion in this case.

Section 1103(b)(2)(C) of the Code calls for certification by the Board that the particular corporation involved satisfies the requirements of section 1103(b) for "qualified bank holding corporation" status. One requirement for such status is that the corporation "is a bank holding company" (section 1103(b)(1)) and another is that "it would have been a bank holding company on May 15, 1955, if the Bank Holding Company Act of 1956 had been in effect on such date" (section 1103(b)(2)(A)).

Section 2(a) of the Bank Holding Company Act, which defines the term "bank holding company", contains a provision that

"no company shall be a bank holding company if at least 80 per centum of its total assets are composed of holdings in the field of agriculture."

In connection with the Certifications heretofore issued by the Board, this provision caused no difficulty, because it was clear to the Board, from its knowledge of the affairs of the holding companies involved, that the proviso did not exclude the corporation from the "bank holding company" category. However, Consolidated Naval Stores is engaged to a considerable extent in "the field of agriculture", as defined in section 2(g) of the Act, and, in fact, the legislative history discloses that this exemption was inserted in the Act for the express purpose of excluding Consolidated from the scope of the definition of "bank holding company".

Commissioner of Internal Revenue -2-

In these circumstances, the Board of Governors considered it appropriate to request Consolidated to present evidence to support its contention that it does not come within the so-called "agricultural exemption" and would not have come within its purview on May 15, 1955 if the Holding Company Act had been in effect on that date. As indicated above, the inapplicability of this exemption, both on May 15, 1955 and at the present time, would have to be established in order for the Board to certify that Consolidated satisfies the requirements prescribed by section 1103(b) of the Code for "qualified bank holding corporation" status.

Consolidated submitted to the Board appraisals by outside organizations and individuals with respect to the value of its assets on May 15, 1955 and on December 31, 1957, and more recently Consolidated submitted an affirmation and supporting schedules to establish that the value of its holdings in the field of agriculture continues to be less than 80 per cent of the value of its total assets.

On the basis of the appraisals submitted by Consolidated, subject to certain adjustments that seemed appropriate, the Board has reached the conclusion that Consolidated would have been a "bank holding company" on May 15, 1955 and is a bank holding company at the present time. However, since the Board's Certification in this respect rests in part upon appraisals by other persons rather than upon information within the Board's own knowledge, it has been considered advisable to include in the Certification a statement on this point. In the opinion of the Board of Governors, reliance on such appraisals, in the circumstances of this case, is appropriate and is consonant with the provisions of Part VIII of subchapter O of chapter 1 of the Internal Revenue Code of 1954.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure